CENTRAL EUROPEAN ENTERPRISE DEVELOPMENT ACT OF 1990—H.R. 4999

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 4999

TO AMEND THE SMALL BUSINESS ACT TO PROVIDE MANAGEMENT AND TECHNICAL ASSISTANCE TO SMALL BUSINESSES, AND FOR OTHER PURPOSES

WASHINGTON, DC, JUNE 20, 1990

Printed for the use of the Committee on Small Business

Serial No. 101-38

U.S. GOVERNMENT PRINTING OFFICE

31-738 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H721-8

COMMITTEE ON SMALL BUSINESS

JOHN J. LAFALCE, New York, *Chairman*

NEAL SMITH, Iowa
THOMAS A. LUKEN, Ohio
IKE SKELTON, Missouri
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
GUS SAVAGE, Illinois
NORMAN SISISKY, Virginia
ESTEBAN EDWARD TORRES, California
JIM COOPER, Tennessee
JIM OLIN, Virginia
RICHARD RAY, Georgia
JOHN CONYERS, JR., Michigan
JAMES H. BILBRAY, Nevada
KWEISI MFUME, Maryland
FLOYD H. FLAKE, New York
H. MARTIN LANCASTER, North Carolina
BILL SARPALIUS, Texas
PETER HOAGLAND, Nebraska
RICHARD E. NEAL, Massachusetts
GLENN POSHARD, Illinois
ELIOT L. ENGEL, New York
JOSE SERRANO, New York

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
WM. S. BROOMFIELD, Michigan
ANDY IRELAND, Florida
JOHN HILER, Indiana
DAVID DREIER, California
D. FRENCH SLAUGHTER, JR., Virginia
JAN MEYERS, Kansas
LARRY COMBEST, Texas
RICHARD H. BAKER, Louisiana
JOHN J. RHODES III, Arizona
JOEL HEFLEY, Colorado
FREDERICK S. UPTON, Michigan
CLYDE C. HOLLOWAY, Louisiana
MEL HANCOCK, Missouri
RONALD K. MACHTLEY, Rhode Island
SUSAN MOLINARO, New York

DONALD F. TERRY, *Staff Director*
J. DREW HIATT, *Minority Staff Director*

CONTENTS

Page

Hearing held on June 20, 1990 1

WITNESSES

WEDNESDAY, JUNE 20, 1990

Bishop, Charles E., Ph.D., president emeritus, University of Houston System, and special assistant to the provost, University of North Carolina 12
Kobelinski, Mitchell, president, Mid-Europe Trade & Investment, Co 3
Merrifield, D. Bruce, Ph.D., former Assistant Secretary for Productivity, Technology and Innovation, U.S. Department of Commerce 7
Moldt, Edward M., managing director, Sol C. Snider Entrepeneurial Center, University of Pennsylvania's Wharton School 9
Rennie, John C., chairman and chief executive officer, Pacer Systems, Inc. 15

APPENDIX

H.R. 4999, text of 25
Opening statements:
LaFalce, Hon. John J. 22
McDade, Hon. Joseph M. 24
Prepared statements:
Bishop, Charles E., Ph.D. 45
Kobelinski, Mitchell 33
Merrifield, D. Bruce, Ph.D. 46
Moldt, Edward M. 40
Rennie, John C. 57

CENTRAL EUROPEAN ENTERPRISE DEVELOPMENT ACT OF 1990—H.R. 4999

WEDNESDAY, JUNE 20, 1990

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Small Business Committee will come to order. Last January I led a 13-member delegation to Central Europe to witness firsthand the democratic revolution occurring there, and to assess how America could best help. All of us came back recognizing that Central Europe represents both a moral imperative and economic opportunity for the United States at this moment in history.

The political revolutions of 1989 are now being institutionalized through parliamentary and local elections. But as dramatic and heartwarming as political events continue to be in Poland, Czechoslovakia, and Hungary, economic reality continues to be sobering: The hardest part is yet to come.

Needless to say, the stakes are enormous—not only for the people of Central Europe, but also for the political and economic stability of the world.

For that reason, the Bush administration and the Congress have been working together over the past year to assist this process. Most-favored-nation status has been conferred; trade restrictions have been moderated; Ex-Im Bank and OPIC guarantees have been extended. The Peace Corps is on the way.

Of course, much, much more needs to be done. For example, this afternoon the House Banking Committee will be meeting to consider legislation to establish a European Bank for Reconstruction and Development.

But this morning, the Small Business Committee is focusing on legislation which is specifically targeted at helping to build an enterprise culture in Central Europe.

In meetings we had with dozens of political, academic, labor, and business leaders from these countries, one message was loud and clear: Central Europe's greatest need is for information and practical training in how a market economy functions. This basic economic infrastructure must accompany, if not precede, whatever trade and finance assistance may be forthcoming from industrialized countries.

After more than four decades of a centralized command economy which relied mostly on heavy industry, there is almost no experience in how to manage a decentralized, entrepreneurial system. The desire and will of the Polish, Hungarian, and Czechoslovakian people to become entrepreneurs is overwhelming, and the United States is best positioned to provide this specialized expertise.

When members of my delegation spoke to these people, it was not Japanese or German discipline and efficiency which was their model for a better life, it was the American entrepreneur, with the freedom to succeed, or risk failure, based on their own initiative.

Based on my meetings in January and subsequent discussions after returning to the United States, I introduced legislation, H.R. 4999, earlier this month which would amend the Small Business Act to establish a series of enterprise development centers in Central Europe. These centers would draw upon the expertise, experience' and success of similar programs developed in the United States through Small Business Development Centers [SBDC].

I believe that a similar network of centers to help provide basic information and hands-on technical assistance to emerging entrepreneurs should be an integral component of any American assistance program for Central Europe.

H.R. 4999 would also establish an American Enterprise Corps. This group would consist of volunteers who are expert in their field and who are willing to contribute their time to train entrepreneurs one-on-one in Central Europe.

I believe that this effort is fully consistent with President Bush's call for greater private sector involvement in these countries—particularly from the Polish-American, the Hungarian-American, and Czechoslovakian-American communities throughout the United States.

I am very pleased to have before us this morning a distinguished group of entrepreneurs and educators to provide their views on H.R. 4999 and how we can best help the small business sector in Central Europe.

Before we call upon them, though, at this point I would like to include within the record the opening statement of the ranking minority member of the Small Business Committee, Representative Joseph McDade.

Without objection, so ordered.

[Mr. McDade's statement may be found in the appendix.]

Chairman LAFALCE. Does any other member of the panel have any opening statement they wish to make?

Mr. IRELAND. Mr. Chairman, let me just say that I think this is an important initiative, and compliment you on doing it.

I returned from a trip with Majority Whip Gray and Minority Whip Gingrich over the Memorial Day weekend, and I was struck by the fact that whether it was students that had participated in the revolution in Czechoslovakia or members of the new parliament in Hungary, either the first or second, never less than that thing that those people said that they needed was the entrepreneurial knowledge that we had. They certainly weren't looking for handouts.

Small businesses in the free market are greatly on their mind and there is no question that from that experience and other read-

ing materials as well as that the best thing we can do is to help these people learn the skills that we have had by experience.

So I think we are on the right track here. I appreciate the opportunity to participate.

Chairman LAFALCE. Any other statements?

Mr. LANCASTER. Mr. Chairman, I would like to join Mr. Ireland in commending you in the introduction of this legislation and the holding of these hearings, and would like at this time to welcome to the panel a special friend of mine who we in North Carolina are very proud of, Dr. Charles E. Bishop.

Dr. Bishop resides in Chapel Hill in what I guess could be euphemistically "semiretirement." He seems to be busier than he was when he served as president of the University of Houston and president of the University of Arkansas, and past chancellor at the University of Maryland. He has been a rich resource and real mentor to the people in North Carolina who are making the Small Business Development and Technology Center such a rich resource for business in North Carolina.

He, however, brings to that an incredible background not only as a university president, but also having served many presidents in varying roles serving as President Johnson's Director of the National Advisory Commission on Rural Poverty; as President Kennedy's, and he served as President Carter's commissioner on the National Agenda for the 1980's. This is just the tip of the iceberg, and incredible achievements and causes that Dr. Bishop championed through the years.

I do welcome him, and appreciate your inviting him to serve as a member of this panel, and I look forward to his testimony.

Chairman LAFALCE. Thank you very much. We have a very distinguished panel this morning. Our first witness is going to be Mr. Mitchell Kobelinski, president, Mid-Europe Trade and Investment Company, and most importantly, former administrator of the Small Business Association. Mr. Kobelinski was the administrator in President Ford's administration. I first came to Congress in the Ford administration and he was the first administrator I dealt with.

He brings tremendous expertise in small business problems and potential, but he also is past president and now chairman of a bank in Chicago, Illinois, chairman emeritus of another bank in Chicago, so he brings financial expertise.

He is also a leader within the ethnic community in America and particularly, I might point out, the Polish-American ethnic community.

Mr. Kobelinski.

TESTIMONY OF MITCHELL KOBELINSKI, PRESIDENT, MID-EUROPE TRADE AND INVESTMENT CO.

Mr. KOBELINSKI. Thank you, Mr. Chairman and members of the committee.

It has been more than 13 years since I last addressed this committee as the administrator of the U.S. Small Business Administration. It is a pleasure to be called upon to address you again on small business and entrepreneurship. It is particularly so because

of the turn of events in Central and Eastern Europe, which gives rise to the need for legislation being introduced by Congressman John LaFalce.

After returning to the private sector in March 1977, I established an international trading company with offices in Chicago and Warsaw, Poland. I have owned and operated companies in trade and manufacturing in Poland ever since. During these years, attitudes toward private enterprise have oscillated considerably, but today no question in this area remains—Poland is determined to introduce a free market economy and promote private enterprise.

Unfortunately, as with so many things in life, it is easier said than done. After 50 years of rule by authoritarian entities, including 6 years of Nazi occupation, very few people remain with true hands-on experience in the workings of a free enterprise economy. Pure passage of time has brought us to a point where a 25-year-old prewar businessman with a few years of experience would necessarily be at least 75 or 80 years old today.

Consequently, it becomes quite obvious that more than just capital resources will be required in these new free market economies.

As administrator of the SBA and in the years following, I was often asked what part of the SBA program was most helpful and which the least helpful to small business in my opinion. My response to this question was easy for me, after witnessing the SBA activities from the office of the administrator—the least beneficial, on the whole, was the direct loan program; the most beneficial were the activities designed to give management and technical assistance to small business. Somewhere, in the middle, were the loan guarantee programs.

In countries where it has been difficult, if not impossible, to get on-the-job training in entrepreneurship, can there be any question that in order to have a rapid and effective change to a free market, entrepreneurs will have to be assisted and trained.

I had the pleasure of granting the first charter of authority to Rutgers University to begin what was then called the UBDC, the University Business Development Center. I believe I authorized a total of five such initial charters in 1975.

Congress, in its wisdom, subsequently codified this activity of the SBA by amending the act to formalize Small Business Development Centers in 1980. Centers of this type have blossomed across our country in the past 10 years and have proven to be extremely effective in helping small business.

In a country where entrepreneurship has flourished like nowhere else in the world, the need for management and technical assistance to small business through Government-sponsored programs has become unquestioned.

Can anyone seriously question the need for such assistance in countries that have operated in an environment of State planning, ownership and management for the past 50 years? I think not.

One of the most effective ways of assisting small business in America has been the use of experienced volunteer retired businessmen, SCORE, the Service Corps of Retired Executives. Nothing takes the place of experience. This fantastic cadre of volunteers, who are also an integral part of the SBDC Program, have been the backbone of the SBA's management assistance program for years.

They have saved thousands of small businesses from failure and poor performance, thereby also saving thousands of jobs and providing productive tax paying citizens and companies.

I encourage your committee to continue to support this aspect of the SBA.

As a Nation we successfully lead a struggle against a socialist system that denied individual freedom and inhibited the pursuit of happiness for hundreds of millions of our fellow men. Today we proudly observe the decline of this system and the proliferation of our free market economic system, accompanied by democracy and personal freedom.

This victory is probably the greatest of all American and free world victories because it was won by means other than death and destruction for our enemies. However, our victory will not be complete or consolidated until we are confident that a free market economy is flourishing in these countries.

That is precisely why the bill that you are considering today is not just another way to give away taxpayer's money, but a continuation of the same battle that we have fought for the minds and hearts of the people in Central and Eastern Europe. We must demonstrate that we really need and want them as a part of our free world, our free market economy.

The change from the old economic system to the new will not come easy. I was in Poland and the Soviet Union just a few weeks ago. In Poland, the drastic change has created tremendous hardships on the average working man and almost impossible living conditions for retirees. Only a rapid development of new competitive small business can help fill the market with products at reasonable prices and create the jobs that are needed by the newly employed.

The victory of our system and the absolute failure of theirs has caused an unprecedented drop in the standard of living and hardships which are difficult to describe adequately. The people of the Soviet Union are also experiencing the beginnings of a change to a market economy. Although this bill does not include the U.S.S.R., it may someday soon be necessary to provide management training there since their experience in entrepreneurship is almost nonexistent.

During this visit to Warsaw, I met with Dr. Andrzy Arendarski, member of the Polish Sejm, parliament. He serves as the chairman of the Small Business Committee of the Sejm, as well as the chairman of Poland's International Chamber of Commerce. I have had several meetings with Dr. Arendarski, beginning with his visit to the United States in November of 1989 when he addressed the Polish-American economic forum convened in Chicago.

In a memorandum prepared for Dr. Arendarski at his request, one of the suggestions which I have made is to create an agency comparable to the SBA in the Polish Government. The provisions of this bill would certainly provide a major first step in the direction of this kind of agency, since it is entirely possible that with a proliferation of SBDC's in Poland, a government agency will be required to coordinate and support these efforts.

Consequently, I believe most fervently that the assistance proposed through the enactment of this bill is essential to move the

recipient countries into successful free market economies within an acceptable period.

I believe we face the danger of a popular reaction against the leadership of these countries that are trying to create a new economic state, if the change becomes too prolonged. I believe we need to act quickly. I believe the concept of the American Enterprise Corps is superb. It will harness the experience of our successful businessmen and plant these strong seeds of entrepreneurship in a way that can cause small business to blossom and succeed quickly.

These are not primitive developing countries. They are populated by many ambitious, intelligent and well-educated men and women. They need the tools of both capital and management advice. Our help in the area of capital has been modest and slow in delivery up to this point. I sincerely hope that through the rapid enactment of this bill, we can demonstrate that we are totally sincere in wanting to help make these economies flourish as quickly as possible.

Volunteers must be organized, screened and properly directed. To do this, a professional organization with adequate experience in those countries should take charge. I hope you will realize that a serious recruiting effort even with the help of the SBA will not be accomplished without professionals.

Having served in both the Nixon and Ford administrations, you might easily guess my attitude toward spending taxpayer's dollars. However, the suggested funding for the American Enterprise Corps is truly inadequate in my opinion. If we are to be serious about this, and we should be, then it will take much more funding that $1 million to help in three countries.

I ask that this committee unanimously report out this bill and provide an appropriation that will be equal to the task that lies ahead. Let us consolidate our victory by making free enterprise blossom in Central and Eastern Europe without delay.

Allow me to conclude my remarks on a separate note which has disturbed me since the inception of a free market in Poland and Hungary and the opening of its doors for foreign investment.

I travel to Poland often and witness the literal invasion of potential foreign investors, scores of Japanese, German, Italian, Swedish, French and Korean businessmen and the very small smattering of American business representatives. Those few that I see are generally tied to some trip or mission sponsored by a Government entity and are busy listening to generalities expounded by either American or Polish Government officials.

The serious American businessman willing to make the commitment to invest in Poland is hardly to be found. The highly touted enterprise fund has yet to put forth its first dollar in Poland and OPIC is virtually in the same position. Only in the past few weeks has Ex-Im Bank opened its doors for medium-term credits as announced by the President, and that is thanks to the constant pressure of our chairman of this committee, Mr. LaFalce.

One day in the near future, we will read the statistics concerning Central and Eastern Europe and learn that Americans occupy the last place among Western investors in these dynamic new economies. The needed machinery, equipment, and technologies will be flowing from countries other than the United States, because the investors of those countries will be buying at home. We will look at

our balance of trade and continue to scratch our heads wondering why we are not occupying our appropriate position.

The Congress has passed the SEED I Act and is considering SEED II Act. My friends in Poland look to America with the hope of seeing the United States in the lead position as an investor in Poland. Unfortunately, they are now asking, when will we see the first dollars of all these touted programs. When will Americans stop coming in missions to review economic conditions and start coming with meaningful business intentions.

No American bank has opened a branch in Poland, while more than 10 foreign bank licensees have already been issued by the Polish Central Bank. This committee probably cannot have any major impact in changing these sad facts, but I thought it would be useful to bring the realities to your attention.

However, there may be one thing in which Congress may be helpful regarding Export-Import Bank activity. For many years, the Ex-Im Bank has provided lines of credit to foreign banks to encourage purchase of American products by small businesses in various foreign countries. The program is in use, I am told, in Yugoslavia.

The practice in the past was to provide direct lines of credit to the foreign bank. More recently, it has been to encourage major private banks to provide such lines of credit to foreign banks with the Ex-Im Bank guarantee. In either event, this facility has had a past record of successfully encouraging small loans for acquisition of American equipment.

Today, this type of facility is desperately needed in Poland and Hungary. I would hope that the appropriate committee of this Congress sees to it that Ex-Im Bank extends its facilities to one or more banks in Poland and Hungary to help small business buy American equipment.

I thank you once again, and I am at your disposal. Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much for your excellent testimony, Mr. Kobelinski.

[Mr. Kobelinski's statement may be found in the appendix.]

Chairman LAFALCE. We are going to hear from all the witnesses before we begin the questioning period.

Our next witness is Dr. Bruce Merrifield, former Assistant Secretary for Productivity, Technology and Innovation in the United States Department of Commerce.

It was my pleasure to work quite extensively with Mr. Merrifield when he had that position in order to try to enhance productivity of American industry and improve our international competitive posture.

Dr. Merrifield.

TESTIMONY OF D. BRUCE MERRIFIELD, PH.D., FORMER ASSISTANT SECRETARY FOR PRODUCTIVITY, TECHNOLOGY AND INNOVATION, U.S. DEPARTMENT OF COMMERCE

Mr. MERRIFIELD. Thank you, Mr. Chairman.

Chairman LAFALCE. I want to point out also, a former constituent.

Mr. MERRIFIELD. All right. I would like to submit my written testimony for the record and make a few comments.

There is a man named Fernando Desoto in Peru who has written a book based on a 7-year study of Latin American economies. The bottom line of that book is that the definition of an underdeveloped country is one where the entrepreneurial function has been made illegal, where the entrepreneurial function has been relegated to the black market and the population to poverty.

You can immediately transfer that learning from Latin American economies to the Marxist-Socialist economies of Eastern Europe and other places around the world. In fact, that is exactly what has happened.

Entrepreneurial activity is essential for many reasons, and of course, we know how to do this better than anybody in the world. Most of us are not really familiar with the fact that we are a Nation of small businesses. We have about 15 million small businesses in the United States, only 5 percent are publicly traded. That is just the tip of the iceberg. The great strength and diversity of our economy is in the small business community that is largely invisible.

In fact, for the last decade we have been creating 600,000 to 700,000 new small businesses every year in the United States, less than 10 percent fail each year, and that is where over 70 or 80 percent of the 20 million net new jobs have been created over the last decade. As many as 2 to 3 million jobs per year, two thirds of them with companies with less than 25 people.

The Europeans call this an American miracle. In fact, they would like to know how to do this, too. They have actually lost jobs over the last decade while we have created 20 million net new jobs. In fact, we are the only Nation really that understands that entrepreneurial function and can translate that into other countries. We know how to do this and we have a number of good models, as a matter of fact. But as Mr. Kobelinski was pointing out, it takes a professional presence in each country to initiate this process.

One of the things that you may be aware that I was pursuing at Commerce was what we call the INPACT Program, International Partnership for Commercialization of Technology Program. We started, as you know, with Israel, which has been phenomenally successful.

Basically what we do is create joint ventures between U.S. and foreign nation countries to develop new to the world technology, new businesses that expand the marketplace instead of zero-sum game that tries to carve it up into smaller pieces.

We have a success ratio of 90 percent in Israel. Over 225 companies, joint venture companies, have been formed, generating over $1 billion in sales, direct and indirect. We have cloned the problem with India and France and Ireland, and Chile and Finland and India. When I started this process in Bombay I did so with great trepidation. I wasn't sure it would work.

Within 6 weeks after we announced the formation of the function in Bombay, there were 300 proposals from all over India that swamped that office. There is latent creativity everywhere, but the process of entrepreneurial new product and new process development is not effective in these developing countries without a col-

laborative effort and professional input. This is what we are trying to provide through the joint venture process.

The important thing to understand is that this process which we call the modern Marshall Plan, creates new businesses that create new jobs. It also multiplies the market potential for new developments, opens access for U.S. companies to foreign markets in these arrangements, and usually builds on foreign technology.

About 70 percent of the technology in the Israeli model has come out of Israel, not from the United States, and 80 percent is coming from India, can you believe that? It is a phenomenal process, but probably the most important thing that it does is to build the small business middle class that is essential for democracy. Without the middle class that has a stake in political economic stability, you cannot have participatory democracy.

It is this type of cooperative effort that can revolutionize the Marxist socialist paradigm which has relegated entrepreneurial activity to the black market. It is this process, I think, that can make a more profound difference than anything we currently do.

As we initiate programs of this sort, we can also be creating a presence in each country that brings in the professional business management and entrepreneurial management faculties from various universities. We can start incubators and begin to develop a program that really jump-starts these companies to the leading edge of technology in the process, a process which otherwise would take decades to do.

I see this as a very positive initiative. I would urge you to continue it and, in fact, the key is to now get it started, put the professional function in place through the SBDC so that we can begin to build on that model. Thank you very much.

Chairman LAFALCE. Thank you very much, Dr. Merrifield.

[Mr. Merrifield's statement may be found in the appendix.]

Chairman LAFALCE. I think it probably would be appropriate, in view of the fact that we have a vote, to recess for approximately 15 minutes so that all Members can go over and vote, and I pray all will be able to come back. So the Small Business Committee will stand in recess.

[Recess.]

Chairman LAFALCE. The Small Business Committee will reconvene. Our next witness will be Mr. Edward Moldt, managing director, Sol C. Snider Entrepreneurial Center, the Wharton School.

It is also my understanding, Professor Moldt, that you will have to leave shortly after your testimony.

Mr. MOLDT. I do, Mr. Chairman, yes.

Chairman LAFALCE. We accept that fact. You may proceed.

TESTIMONY OF EDWARD M. MOLDT, MANAGING DIRECTOR, SOL C. SNIDER ENTREPRENEURIAL CENTER, UNIVERSITY OF PENNSYLVANIA'S WHARTON SCHOOL

Mr. MOLDT. I appreciate the opportunity to testify in support of H.R. 4999. First let me compliment you, Mr. Chairman, on the introduction of legislation which, if enacted, will provide strong and continuing support to the efforts of the Central European countries to move toward market economies.

My support of the Small Business Development Centers program stems from my experiences as a practicing entrepreneur and as the managing director of the Snider Entrepreneurial Center at the University of Pennsylvania's Wharton School.

I have also participated in the reconstitution of the Caribbean Islands following Hurricane Hugo.

As an entrepreneur, I can testify to the value of good management assistance during the development of a business. I own and operate about 200 businesses which I have acquired or started over the past 20 years. That experience has taught me that good, sound information—which is what Small Business Development Centers' consultants provide—can help a small business owner avoid costly mistakes.

It is practically impossible for a fledgling business to survive long term if the owner cannot find practical solutions to business problems. An entrepreneur can be overwhelmed trying to work alone without the benefit of informed assistance.

My experience has also taught me the value of marketing. I know how important it is for me to create a niche for my business if I want it to be successful. I also know that I have to develop a competitive advantage vis-a-vis others in the field if my business is to prosper. It will take a tremendous concentrated educational effort to train people to think about the issues of market and position if it has not been part of their culture. I can imagine what a wrenching change I would be facing if my companies were in Poland, Hungary, or Czechoslovakia.

As managing director of the Snider Entrepreneurial Center, which serves as a base for the Wharton SBDC, I have seen the power of the SBDC concept in action. The Wharton SBDC is Pennsylvania's lead Small Business Development Center, one of 14 in the State's network.

I have been impressed by the quality of the consultants that the program attracts. At Penn, the consultant positions are largely staffed by MBA students with a wide range of business experience behind them. It is a much sought after position, with 12 applicants for every position we wish to fill. In most of the rest of the Commonwealth's SBDC's, the consultants are permanent staff with backgrounds in banking, small business, marketing, and regional economic development.

I have seen the SBDC prove itself in the scope of consulting undertaken and successfully completed, in the capital raised by SBDC for clients for start-up and expansion; in the level of the seminars and programs it conducts to enhance the business owner's skill levels; and in the very real difference the program makes in the success of client businesses.

Repeatedly, the SBDC's receive letters from small business owners testifying to the importance of the SBDC assistance: phrases like I wouldn't be here without the SBDC; I know so much more about running my business thanks to the SBDC consultant, or the bottom line is that the SBDC helped my bottom line.

What I have seen work so well in Philadelphia also works in the rest of the Commonwealth, in places as diverse as Loretto, Scranton, and Pittsburgh. Our SBDC's all provide the same basic services; they provide quality business management assistance to small

business owners, helping them to guide their firms so that they grow and prosper. There are certain fundamentals such as marketing and planning for capital needs that they all teach through workshops and individual consulting.

The SBDC's, however, offer programs to meet specialized needs in their areas. For instance, an SBDC in a rural area might design a seminar on managing a lumber mill while an SBDC located in an urban environment would conduct seminars on growing software businesses.

SBDC consultants know that successful marketing depends on knowledge of the environment. The distributor, for example, of energy-efficient lighting and heating equipment came to our SBDC at Wilkes University in Wilkes-Barre puzzled because he was having trouble finding customers. He had moved from an urban area to a region with 40 to 50 small towns that he had targeted for sales, an area with no competing businesses.

Working with the consultant, it became clear to the entrepreneur that the marketing approach he had brought with him from a big city was certainly inappropriate for Wilkes-Barre. In small towns, businesses succeed through personal contact and word of mouth. The consultant suggested that the distributor make friends first, then do business. He advised him to join the local business associations, make personal calls, and to get to know the market area.

His first sales came from some local firehouses, but his big break came when one of the local churches hired him to help him save money in lighting and heating expenses. Once accepted, the communities welcomed his services and his products; the business has since built a warehouse in the area and continues to thrive.

Each business problem is unique in some ways and fundamental in others. The same could be said of SBDC's. They teach basic business skills, they extend their reach in communities through networks with other economic development groups, and they have the flexibility and knowledge to respond to the needs of their particular regions—a very important element as we look at Central Europe.

The program proposed in this bill is one of the most innovative I have seen suggested for the restructuring of businesses in Central Europe.

The following are the points that I think make H.R. 4999 particularly worthy. It uses a model that has proven itself adaptable and successful at small business assistance.

Second, it transfers new skills to consultants, and university, and technical school faculty and students in Poland, Czechoslovakia, and Hungary.

Further, it provides a method for those consultant/faculties and students to assist existing and start-up businesses by using these new skills.

It provides a basic program that, once established, will act as a catalyst for the formation of other public and private organizations for the support of business development.

It provides support of Central European small business assistance through liaison with consultants in the United States SBDC's and with U.S. faculty and students actively working with those

issues of entrepreneurship. It eliminates ramp-up time because the model already exists requiring essentially teaching that model in Poland, Czechoslovakia, and Hungary.

It acquaints our SBDC consultants with the unique cultural implications of doing business in Central Europe, something our own consultants and students in this country could stand a good dose of.

It provides a network that could significantly effect the export to and introduction of U.S. products in Central European businesses.

An economic development model, called the Heinz model, devised by the University of Illinois, projects substantial leverage in job creation for every new manufacturing job created. I believe that the model projects approximately four new jobs created in a community over a 5-year period for every new manufacturing job created today. Poland, Hungary, and Czechoslovakia face significant layoffs and economic dislocation as inefficient industries slim down to competitive size.

Your proposed bill provides an economical and effective method for stimulating smaller businesses so that they will be able to hire those who are dislocated from the large companies. As we have seen in the United States over the past 10 years, major U.S. companies lost some 3.5 million jobs while companies employing less than 100 people increased jobs by some 26 million jobs.

Our greatest effect on the economies of Poland, Hungary, and Czechoslovakia will be the revitalization of their small businesses.

We have been visited by 18 delegations from universities and economic development organizations from Central Europe since the first of this year. I leave next Monday for a 6-week mission to work with those organizations in Central Europe.

Our greatest effect on the economies of Poland, Hungary, and Czechoslovakia will be the revitalization of their small businesses. Your proposed legislation can make that happen. Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much, Mr. Moldt.

Chairman LAFALCE. Our next witness will be Mr. Charles Bishop, president emeritus of the University of Houston System, and special assistant to the provost, University of North Carolina at Chapel Hill—already introduced by Representative Lancaster.

Mr. Bishop.

TESTIMONY OF CHARLES E. BISHOP, PH.D., PRESIDENT EMERITUS, UNIVERSITY OF HOUSTON SYSTEM, AND SPECIAL ASSISTANT TO THE PROVOST, UNIVERSITY OF NORTH CAROLINA

Mr. BISHOP. Thank you, Mr. Chairman, for affording me this opportunity to appear before your committee in support of H.R. 4999.

My comments in support of this well-timed legislation come from three perspectives: first, from my experience as an economist; second, from my extensive experience as a senior academic administrator; and, finally, from my recent experience with the SBDC Program in North Carolina.

I have been amazed at the speed with which political and economic changes are occurring in Central Europe. The structured, planned economies are being rapidly transformed into market-driven economies. Political change has been accompanied by, I

must say, highly elevated, often naive, expectations of short-run economic gain to be derived from this transition.

This transition, however, will not be quickly made and it will be painful. Neither Poland nor Hungary have had a well-developed market system, and it has been nearly 50 years since Czechoslovakia was market oriented.

The development of an efficient market system will require modifications in the infrastructure to facilitate the efficient flow of information, resources and products. It will also require a new way of thinking, focused upon cultivation of the entrepreneurial spirit and capitalizing upon opportunities to engage in and profit from business ventures. While the pace may be rapid, the failures will be numerous, and disillusionment could become widespread.

There are four critical factors that should be recognized in any effort to extend the SBDC Program to Central Europe. First, change is fueled by rapidly rising expectations that have been submerged for many years. However, it is important that these expectations be realistic.

A very high percentage of small businesses end in bankruptcy. That is true even in this country. A well-conceived program of instruction and counseling can help to prevent failures and to promote successes.

In order to minimize failures it is important that the program be capable of providing short-term impact and that it be highly visible.

The SBDC Program meets these conditions. It is a proven concept. It has produced tangible results by effectively building a bridge between resources and know-how and the business community.

Our experience in North Carolina certainly confirms the potential of this sound approach. It is impractical, however, to introduce a program of the magnitude that would be required to meet the needs of the host countries in a short period of time.

H.R. 4999 wisely calls for the introduction of a demonstration-type program in at least two educational institutions in each of the host countries. A program of the size contemplated should be sufficient to demonstrate the validity of extending the SBDC concept to Central Europe while at the same time gaining visibility. As the demonstrations prove effective, they can be extended to other locations in the host countries to provide access throughout them.

This is the procedure that we have successfully employed in extending the SBDC Program to all of the universities in the University of North Carolina system. Through the host universities and circuit-rider programs conducted in cooperation with local community colleges and chambers of commerce, citizens throughout North Carolina now have access to the SBDC Program.

Second, we must recognize that money alone will not assure the successful transformation of the Central European economies. What is critically needed is know-how. This includes a massive educational effort to prepare the political, educational and business leadership in these countries to facilitate the development of a small- and mid-sized business base which can operate and prosper in a market economy, and a reliable system of advice and consultation for fledgling entrepreneurs.

This educational effort must be solidly grounded in a source of reliable information concerning market conditions, capital needs, and managerial and technical requirements for successful operation of new businesses.

Third, the SBDC Programs in this country are extensions of the State universities. As such, they have ready access to the expertise and information resident in the universities. It should be emphasized, however, that the American university is unique in the world in its commitment to outreach and public service.

The SBDC and Cooperative Extension Service Programs are but two important examples of a strong and very diverse base of support and commitment to the community found in our colleges and universities.

However, this is not typical of European universities and, as a consequence, it will be necessary to identify universities and other cooperating institutions that can be encouraged to become the type of change agent which has been so characteristic of American universities. The need for an SBDC Program will be a continuing one if Central Europe is to be brought into the world economy which is characterized by private enterprise, technical research, and rapidly changing technology.

It is essential that the program be properly institutionalized both in the United States and in Central Europe in order to be operated successfully over an extended period of time.

Several of our university professors recently visited Central Europe to identify universities and institutes that would be willing to cooperate in this type of program. They also found associations of cooperatives and small businesses that were receptive. They were warmly received.

Fourth, recent events in Central Europe create a truly unique opportunity for American leadership. Poland, Hungary, and Czechoslovakia are looking to the United States as a source of ideas through which to nurture and build the emerging entrepreneurial spirit necessary to meet their economic challenges.

The visit to institutions in Poland, Czechoslovakia, and Hungary and Yugoslavia by representatives of the Kenan Institute for Private Enterprise and the School of Business of the University of North Carolina at Chapel Hill indicated clearly that the responding institutions wished to have a direct contact with Americans, and especially with American universities, institutions that are known worldwide for their freedom.

They also indicated a desire to establish formal relations quickly and to develop programs of a practical and applied nature that would facilitate the growth of private enterprise. We are clearly the country of choice, and we should not miss this opportunity.

These visits produced one other finding that should be considered. The vast preponderance of enterprise managers with whom the concept was discussed desired to establish immediate collaboration with MBA graduates, being willing to pay going managerial salaries for the purpose of assistance on feasibility studies, experience in operating free markets, and information on how to penetrate foreign markets.

We have been able to use MBA interns and graduates effectively in the SBDC Program in North Carolina. The American Enterprise

Corps, while it is a good idea as proposed in H.R. 4999, could be modified to incorporate an MBA Enterprise Corps.

In closing, Mr. Chairman, I congratulate you for your initiative in proposing the extension of the SBDC Program to Central Europe. H.R. 4999 is responsive to current needs in Poland, Hungary, and Czechoslovakia. It is focused and builds on the strengths of a proven concept. It would have tangible impact and potential visibility even in the short term.

I am pleased to support your initiative and hope that this timely and important proposal receives the support of your colleagues in the House of Representatives and the Senate. Thank you.

Chairman LAFALCE. Thank you very much, Dr. Bishop.

[Mr. Bishop's statement may be found in the appendix.]

The CHAIRMAN. Our final witness will be Mr. Jack Rennie, chairman and chief executive officer, Pacer Systems, Inc.

TESTIMONY OF JOHN C. RENNIE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, PACER SYSTEMS, INC.

Mr. RENNIE. Thank you, Mr. Chairman. I also am very appreciative of the opportunity to testify today concerning H.R. 4999, the Central European Enterprise Development Act of 1990. I am testifying on my own behalf today.

However, I have been very active for about 15 years or so in the areas of international trade and small business management, and have held leadership positions in regional and national small business associations, national commissions, and advisory boards. It is on this background that I am basing my comments.

As with the emergence of freedom in Eastern Europe, we have seen rapidly growing interest in so-called free market economies. Most of the time, the media have reported on macro issues such as economic planning, currency valuations and big industry relationships. What hasn't been discussed nearly enough, and your bill will help this, Mr. Chairman, has been the very difficult, painstaking effort needed to create vital and vigorous networks of small enterprises in these countries.

I chose the word create purposefully because while there are, of course, small businesses in these countries, they represent—with, I am sure, a few exceptions—not at all the kinds of firms that will survive and grow in the new business environment which will emerge in coming years.

This new business environment will be one of truly great promise and opportunity, but also, as has been indicated by earlier speakers on the panel, it will be one of risk, financial stresses, and failure.

Despite the trendy idea that Americans have somehow been overshadowed in the world of business management by other nations, I would submit that no country in the world has more experience with the effective startup and growth of small businesses than the United States. Also, no country has anywhere near the experience we have compiled in business failures and near failures.

As I have traveled to other countries, the most noticeable, fundamental thing that separates the United States from other countries regarding entrepreneurial activity is our tremendous tolerance of

failure. I think Michael Porter's observations about the organizing of companies in Western Europe to take into account EC 92, although he doesn't mention this, I think it is an underlying factor that he points out that the companies are basically joining each other and going into a mode where companies are coming together and reducing competition instead of increasing competition, and as he points out, the real reason is to try to prevent them from going out of business.

He feels this is not procompetitive and in the long run they will not do well on account of that. I think it is because of this same underlying feature of intolerance for failure.

I worry that if the United States does not reach Eastern European cultures early in this process, this same risk-aversive, intolerance-of-failure characteristic will become embedded in Central Europe, thus stifling the formation of new businesses, creation of jobs, and ultimately their economic recovery.

So I applaud you, Mr. Chairman, and other members of the committee, in initiating this unique program. We must reach Poland, Czechoslovakia, and Hungary early and we must reach them with a knowledgeable, balanced, pragmatic approach. In essence, we want to encourage and help them, but not mislead them regarding the mind-set changes that must take place and the risks they will face in forging new economies.

With regard to the need for assistance, it has long been recognized that would-be entrepreneurs and those managing small enterprises need management assistance. That is why the Small Business Administration has the provision of such assistance as one of its four major functions.

After decades of attempts at a variety of delivery vehicles, the SBA in the late 1970's and early 1980's created the network of Small Business Development Centers around the country.

While not perfect, I believe that this system of SBDC's is the best method we have found to provide the kinds of hands-on help that fledgling companies require. Acting as catalysts by drawing on expertise in the private sector and the Nation's academic resources, SBDC's have, I am sure, significantly helped, if not saved, many of the 675,000 or so businesses with which they have had contact.

Another interesting and apt feature of the SBDC model is the shared nature of its funding and management. As H.R. 4999 proposes, a joint effort of United States and in-country entities will not only be the most efficient in the early stages of the program, but will help ensure that enduring infrastructures are established in each country.

So, Mr. Chairman, I feel that the combination of SBA, SBDC's, and universities is a good one to meet what I feel will be a great need. It will also be most important, in my view, that the assistance match the actual need, so I agree wholeheartedly with the initial phase of work which concentrates on the definition of the needs of small business in each country. We should not enter this phase with prejudged notions, as I predict we will find the needs much different at the beginning than we typically encounter here.

I would expect that the first order needs in these communities will be very basic, both among the small business proprietors and in the university and Government structure. By basic, I mean ele-

mentary orientation and education regarding free enterprise, relating to markets, the role of finance, the role of Government, et cetera. Then more traditional management assistance topics can be addressed.

So, again, I feel that the tasks set out for the Small Business Enterprise Development Commission are on target. The results of this phase should be closely examined before the implementation phase starts in earnest so that the work of the American Enterprise Corps will match the needs.

With regard to delivery mechanisms, during what I am referring to as the first phase, the commission will contract out for the needs assessment and infrastructure evaluation. It seems to me that a combination of talents will be needed for this job. Certainly personnel who can evaluate institutions will be important.

But I would urge, Mr. Chairman, that part of the team should include experienced small business experts, practitioners who have demonstrated their grasp of larger issues and broad policy concerns. This will ensure that the assessment will have a practical character and strong credibility.

I particularly like the notion of the American Enterprise Corps and I applaud the committee on its foresight to provide a vehicle by which outstanding small business owners and entrepreneurs can meet face-to-face and one-on-one with their would-be counterparts in the Eastern European countries.

I have had discussions with a number of individuals within National Small Business United [NSBU] and the Smaller Business Association of New England [SBANE], who had not even heard of this bill, but were looking for opportunities to contribute in this way that is suggested in the bill.

With the combination of some structure provided by the commission and the corps management, coupled with a group of volunteers from all industries and geographic sectors, the United States could very well mount a preeminent team to kick-start these countries' small business sectors.

It is my guess that one of the more important byproducts of the corps' work will be the establishment of a number of company-to-company liaisons and joint ventures. Because I feel basic orientation will be a basic need, I would expect that the individuals from Eastern Europe will learn far more quickly by visiting their counterparts' businesses in the United States.

Therefore, I strongly agree with that section of the bill that provides funding for those activities. In practice, I think the American hosts will reduce the drawdown on funds by having their guests stay in their homes, et cetera. So I think these funds will go a long way, further than we would normally expect.

But the most important feature, which has been provided in the bill, is the utilization of small business practitioners. I would hasten to add that in their own way, those people will be ambassadors for America, so they should be chosen not only because they are familiar with and experienced in business, but also because they have demonstrated good skills in handling situations requiring tact and cultural sensitivity.

In closing, Mr. Chairman, again let me state my support for the thrust of H.R. 4999 and the general way it is organized for imple-

mentation. I am quite excited by the prospects of bringing the small business community of the United States to the front lines of Eastern Europe's economic renaissance.

Chairman LAFALCE. Thank you very much, Mr. Rennie.

[Mr. Rennie's statement may be found in the appendix.]

Chairman LAFALCE. Before we begin the questioning period, I wonder if members of the panel have any additional points that they thought of that they would like to make, or if they have heard comments from other members of the panel that they wish to either concur in strongly or take issue with or something like this? Is there any opportunity you would like to have for dialogue amongst yourselves?

Mr. Rennie.

Mr. RENNIE. One thought that occurred to me, Dr. Merrifield might have touched on it, it really isn't covered in the bill, Mr. Chairman. I don't know that it would be appropriate, but it occurred to me that I didn't know what was happening, if anything, regarding the liaison between parts of the U.S. Government, the SBA itself or the committees, with counterparts, if there are such in the governments of these countries. It seems to me that the role of these governments in creating the right at possible fear for the flourishing of small business will be most important. I don't have a good sense of whether there is anything going on at that level as opposed to the level of dealing with the smalls themselves.

Chairman LAFALCE. I think we have a provision in the bill that requires the host governments to become involved. Counsel, can you point that out to me?

Mr. RENNIE. I may have missed it or misinterpreted it.

Chairman LAFALCE. "In order to be eligible to participate, the educational institution in each designated Central European country shall agree to provide partial financial support to the program either directly or indirectly during the second and third years of the demonstration program." Maybe that can be improved. Maybe that is not just what you were talking about.

Mr. KOBELINSKI. Mr. Chairman, piggy-backing on that, as I mentioned in my comments, at least in Poland, the chairman of the Small Business Committee of their parliament is considering introducing a bill which would create, in effect, a coordinating agency something like the SBA.

They are not certain they would get into the loan aspects of it, but they certainly are cognizant that they do need a certain amount of technical assistance, management assistance, and even the concept of setasides for small businesses. That is something they will be looking at. So that is something in the works.

I don't know how the bill could contemplate that, but it may be that in some of these countries, if a counterpart agency does arise, an SBA of Hungary, I think we are prepared to give them all the support we possibly can to make that succeed and give the SBA here in the United States the funding and the authority to go over and really help them put it together properly. I have another thought that I think may or may not——

Chairman LAFALCE. What we are trying to do primarily is have SBDC begin a networking program.

Mr. KOBELINSKI. Correct.

Chairman LAFALCE. Begin that abroad in these countries. We thought the SBDC network might be a program run from the United States, and it was my thought that the universities might be an appropriate approach in these countries, also, because they have had either no or very minor private enterprise experience.

Most leaders in Government today are not coming out of business. They are not coming out of past Governments. They are coming out of the university sector.

Mr. KOBELINSKI. Yes; academia.

Chairman LAFALCE. So these universities have particularly great clout at this time because many of the deans of the business departments at the universities are now in the treasury or the finance ministry in almost any country you look to.

Mr. KOBELINSKI. One of the things we might consider encouraging is something as we have in the Sister Cities Program, have a sister SBDC Program so the universities—the successful centers here might relate to some particular SBDC center in another country and be the big sisters and help develop it on a one-on-one basis.

Chairman LAFALCE. They would have to be judicious in selecting the SBDC's from the United States to be sure it is the best of the best. I think that outreach is contemplated by virtue of their selection; they would be the sister-to-sister or brother-to-brother or whatever.

Mr. BISHOP. Mr. Chairman, in reference to your comments about the universities, I want to add emphasis to that and to point out that there is within the universities today in my judgment a change in climate and change in attitude on the part of students. Young students, even MBA students, are no longer just profit motivated. I think that can be demonstrated by the findings that I referred to in my comments, to four professors from the Kenan Institute of having been to four countries in Central Europe recently. The first MBA of the MBA Enterprise Corps will go to Czechoslovakia beginning in September. There was no problem in getting a young MBA graduate to volunteer to go abroad for at least a year and help in this venture.

Chairman LAFALCE. Since I have been to Central Europe in January, I have had hundreds of calls from individuals who have asked me, "How can we help out in Czechoslovakia? I speak Czech. How can I help out in Poland or Hungary, or what have you?" Most of them are ethnic Americans whose parents or grandparents came from all those countries, but certainly not all, a great many retirees, are asking what they can do. We don't have a very well-organized structure, it seems to me, right now—if it is not known to the public, how to access it.

I didn't attempt to create a universe for dealing with Central Europe. I did, though, attempt to look at the jurisdiction of this committee and say, within the jurisdiction of this committee, how can we help and how can we help in a manner that fits into the universe being fashioned by the Bush administration? I intended this be complementary to the other efforts that are being pursued by the Bush administration.

Mr. MERRIFIELD. I think it is important not to reinvent the wheel if we can help it. Fortunately, we have models. For example, the Incentive Management School we set up in China, which is primar-

ily professors from this country, came from the State University of New York at Buffalo, they had a tremendous learning experience there.

Chairman LAFALCE. They are cutting that out.

Mr. MERRIFIELD. You are kidding.

Chairman LAFALCE. Go ahead. Please continue.

Mr. MERRIFIELD. I think we ought to reactivate that faculty in order to benefit from the learning process that we have established there that is so critically important.

Again, I think as we put the program together, the professional management of the SBDC, combined with other models, could have a very much higher probability of success if we just make sure to use all the learning we already have.

Chairman LAFALCE. That is a good point. I want to be sure this is complementary to AID's programs, to the Peace Corps' programs. We do not want to have just a hodge podge here, but I really don't see any of them proceeding in this fashion. So this would be a good fit and complementary.

We have been attempting to work with the Foreign Affairs Committee to make sure this is complementary to both SEED I and SEED II. Unfortunately, as Mr. Kobelinski pointed out, those really haven't gotten off the ground yet. Do you want to expand on that any?

Mr. KOBELINSKI. Of course, I don't know where the real problem lies. Maybe it is outside of the administration and the bureaucracy. Frankly, as I witness what is going on over there, I see a lack of true participation or any real effort to make the programs work.

It seems to me that we are continually in a preparatory stage and almost a year has gone by and frankly, from the standpoint of the recipients over there, they say we have heard about these programs now for a year. We have heard about all the efforts, and now where is the impact? Where are the results?

I don't know what OPIC's practices have been in other countries, but it seems to me, for example, if they are going to be active in those countries, they have to have some kind of presence there and there is no one really available, it seems to me, to answer the question of, how do I actually activate a loan? How do I seek this assistance?

The people at the trade center, for example, try to be helpful but they are not OPIC specialists, and frankly, in questioning the people there, I think they are competent, but on the other hand, nobody can answer a question about the Enterprise Fund, no one can really answer clearly what OPIC is prepared to do in the way of small business now.

This is something that seems to be a new ball game for OPIC. They have dealt with major companies, funding millions for big projects in Central America and Asia, et cetera, whereas the need here is truly directed to small business.

The people in Central Europe are not thinking in terms of millions. It is some fellow setting up a small business who needs $200,000 to buy machinery. How does he get that loan? No one seems to be able to put a handle on how he proceeds, where he gets the form even.

Chairman LAFALCE. Right; it seems to me there are a lot of approaches that could be taken. One is joint ventures with General Electric, Eastman-Kodak, and others, but the mom and pop establishments—I don't want to say one is easier than the other but it is my hope that the GM's and Eastman-Kodak's will take initiatives on their own.

I think if we are going to develop this small business sector in these countries and have Americans participate with them, it is necessary to come up with some better mechanism than now exists rather than just hope for it to happen.

I am also discouraged with what is happening with the large companies, too. It is my understanding that the United States has 5 percent of all the joint ventures that now exist with Poland.

No country is more loved in Poland than the United States. No country they would rather do business with than the United States. There, affection for the United States is almost embarrassing.

Didn't you tell me earlier that you went to a recent conference of foreign businesses that wanted to start up in Poland and there were about a thousand in attendance?

Mr. KOBELINSKI. Actually, the law permitting foreign investment in Poland came on the books even before the change in the government. It came on in January 1989.

During the calendar year 1989, just under 1,000 foreign investments were made, foreign-owned companies were organized in Poland. Of that sum, 42, were from the United States. That is something less than 5 percent, approximately 5 percent.

But it is almost embarrassing when you think in terms of their almost plea to please come here, and frankly their fear is that their neighbor Germany, because of the proximity question, will begin to dominate their economy, and of course they say we won a political victory; we don't want to give back what we earned politically and give it back economically and be subservient to Germany. They want U.S. investors. They feel less threatened from U.S. investment.

Chairman LAFALCE. I was impressed that Citicorp was in Hungary. That is probably the only place they are now. Eastman-Kodak had a joint venture, General Electric, GM, Schwinn, et cetera. Then I discovered that we had fewer joint ventures—that was about it—fewer than South Korea has with Hungary. South Korea has more joint ventures with Hungary than we do, much less than other countries of the world.

So we are left way behind when it really seems to me that we should have a modern-day Marshall Plan. Thank you, Dr. Merrifield, I am going to be using that. But this is a small scale. It is probably all we can afford economically because of our structural budget deficits. Promoting the small business sector in these countries is what is called for more than anything else. Any other comment any of you would like to make?

With that, gentlemen, I want to thank you very, very much. We will submit additional testimony into the record, and the committee will be adjourned.

[Whereupon, at 11:08 a.m., the committee adjourned subject to the call of the Chair.]

APPENDIX

OPENING STATEMENT OF HON. JOHN J. LaFALCE
CHAIRMAN, COMMITTEE ON SMALL BUSINESS

HEARING ON H.R. 4999,
THE CENTRAL EUROPEAN ENTERPRISE DEVELOPMENT ACT OF 1990

June 20, 1990

Last January, I led a thirteen member delegation to Central Europe to witness firsthand the democratic revolution occurring there, and to assess how America could best help. All of us came back recognizing that Central Europe represents both a moral imperative and economic opportunity for the United States at this moment in history.

The political revolutions of 1989 are now being "institutionalized" through parliamentary and local elections. But as dramatic and heartwarming as political events continue to be in Poland, Czechoslovakia and Hungary, economic reality continues to be sobering: the hardest part is yet to come.

Needless to say, the stakes are enormous -- not only for the people of Central Europe, but also for the political and economic stability of the world.

For that reason, the Bush Administration and the Congress have been working together over the past year to assist this process: most favored nation status has been conferred; trade restrictions have been moderated; Ex-Im Bank and OPIC guarantees have been extended. And the Peace Corps is on the way. Of course, much, much more needs to be done. For example, this afternoon the House Banking Committee will be meeting to consider legislation to establish a European Bank for Reconstruction and Development.

But this morning, the Small Business Committee is focusing on legislation which is specifically targeted at helping to build an enterprise culture in Central Europe.

In meetings we had with dozens of political, academic, labor and business leaders from these countries, one message was loud and clear -- Central Europe's greatest need is for information and practical training in how a market economy functions. This basic "economic infrastructure" must accompany -- if not precede -- whatever trade and finance assistance may be forthcoming from industrialized countries.

After more than four decades of a centralized command economy which relied mostly on heavy industry, there is almost no experience in how to manage a decentralized, entrepreneurial system. The desire and will of the Polish, Hungarian and Czechoslovakian people to become entrepreneurs is overwhelming; and the United States is best positioned to provide this specialized expertise.

When members of my delegation spoke to these people, it was not Japanese or German discipline and efficiency which was their model for a better life -- it was the American entrepreneur, with the freedom to succeed (or risk failure) based on their own initiative.

Based on my meetings in January and subsequent discussions after returning to the United States, I introduced legislation (H.R. 4999) earlier this month which would amend the Small Business Act to establish a series of enterprise development centers in Central Europe. These centers would draw upon the expertise, experience and success of similar programs developed in the United States through Small Business Development Centers (SBDC).

I believe that a similar network of centers to help provide basic information and "hands-on" technical assistance to emerging entrepreneurs should be an integral component of any American assistance program for Central Europe.

H.R. 4999 would also establish an American Enterprise Corps. This group would consist of volunteers who are expert in their field and who are willing to contribute their time to train entrepreneurs one-on-one in Central Europe.

I believe that this effort is fully consistent with President Bush's call for greater private sector involvement in these countries -- particularly from the Polish-American, the Hungarian-American, and Czechoslovakian-American communities throughout the United States.

I am very pleased to have before us this morning a distinguished group of entrepreneurs and educators to provide their views on H.R. 4999 and how we can best help the small business sector in Central Europe.

Mitchell Kobelinski, President of the Mid-Europe Trade and Investment Company, and former Administrator of the Small Business Administration;

Dr. Bruce Merrifield, former Assistant Secretary for Productivity, Technology and Innovation of the Department of Commerce;

Edward M. Moldt, Managing Director of the Sol C. Snider Entrepreneurial Center of the Wharton School;

Charles E. Bishop, President Emeritus of the University of Houston System and Special Assistant to the Provost of the University of North Carolina at Chapel Hill; and

John C. Rennie, Chairman and CEO of Pacer Systems, Inc.

Statement of the Honorable Joseph M. McDade
Vice Chairman
Committee on Small Business
U.S. House of Representatives
June 20, 1990

Mr. Chairman, I commend you for calling this hearing today to discuss H.R. 4999, the Central European Enterprise Development Act of 1990. I believe it is important to investigate all proposals as the United States develops a policy for aiding the fledgling democracies in Central Europe.

H.R. 4999 would establish a series of enterprise development centers in Poland, Hungary, and Czechoslovakia. These centers, modeled after the Small Business Development Centers here, would offer management and technical assistance to existing and potential small business owners. The legislation would also establish the American Entrepreneurial Corps, a group of volunteers who are expert in their fields and who are willing to contribute their time to train entrepreneurs one-on-one.

The credit for the free-market spirit now sweeping the world goes to the American entrepreneur. Hard work, determination, innovative achievement, faith, and enthusiasm have made successes of many in this country. As we will learn from testimony today, American small firms in the 1980s created roughly 16 million new jobs of which two-thirds came from businesses with fewer than 25 employees. It is a great source of pride for this nation that Central European countries, in the process of reforming their economies, have found in U.S. small business a workable model for creating wide-scale economic growth. As time has shown, it is individuals, not governments, that create economic growth and private enterprise is the best means for achieving that aim.

I look forward to the testimony of these distinguished witnesses.

101ST CONGRESS
2D SESSION

H. R. 4999

To amend the Small Business Act to provide management and technical assistance to small businesses, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 11, 1990

Mr. LAFALCE introduced the following bill; which was referred jointly to the Committee on Small Business and Foreign Affairs

---

A BILL

To amend the Small Business Act to provide management and technical assistance to small businesses, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Central European Enterprise Development Act of 1990".

SEC. 2. The Small Business Act is amended by adding the following new section:

"SEC. 24. (a) There is hereby established a Central European Small Business Enterprise Development Commission (hereinafter in this section referred to as the 'Commission'). The Commission shall be comprised of three members: the

Administrator of the Small Business Administration or the Administrator's representative, a representative of the Association of American Universities, and a representative of the Association of Small Business Development Centers.

"(b) The Commission shall develop in Czechoslovakia, Poland, and Hungary (hereinafter in this section referred to as 'designated Central European countries') a self-sustaining system at in-country educational institutions to provide small business owners the education and information they need to learn the principles and develop the management skills to start and sustain their businesses. In carrying out this program, the Commission shall—

"(1) determine the needs of small businesses in the designated Central European countries for management and technical assistance, including but not limited to, marketing, finance, business planning and development, international trade, technology transfer and health and environmental management;

"(2) evaluate the appropriateness and suitability of programs now existing at educational institutions in the United States which have been funded by the Small Business Administration as Small Business Development Centers which might be replicated in order to meet the needs of each of the designated Central European countries;

"(3) identify and assess the capability of at least two educational institutions in each such country to develop a Small Business Development Center type program to provide the assistance necessary to fill the needs determined pursuant to paragraph (1); and

"(4) formulate and arrange for the establishment of a three-year management and technical assistance demonstration program in the designated Central European countries.

"(c) The Commission shall have the following powers and duties—

"(1) to contract with one entity as a general contractor to study and make conclusions and recommendations on the items enumerated in paragraphs (1) through (3) of subsection (b);

"(2) to approve, disapprove or adopt in modified form the recommendations submitted to it pursuant to paragraphs (1) through (3) of subsection (b);

"(3) to contract with the same or a different entity to implement the program specified in paragraph (4) of such subsection; and

"(4) to form a separate corporate entity called the 'American Enterprise Corps' (hereinafter in this section referred to as the 'Corps').

"(A) The functions of the Corps shall be to—

"(i) recruit volunteers with substantial business expertise who are willing to contribute their services to provide a wide range of management and technical counseling to individual small businesses in the designated Central European countries;

"(ii) accept gifts of monies and other property to form a revolving fund;

"(iii) sponsor entrepreneurs from the designated Central European countries and pay their expenses for receiving training in the United States; and

"(iv) provide reimbursement to Corps' members for their actual expenses, including travel.

"(B) The Corps shall be composed of five members to be selected by the appropriate appointing officials within ninety days of the effective date of this Act as follows:

"(i) one member shall be appointed by the President of the United States;

"(ii) one member shall be appointed by the majority leader and one member shall be

appointed by the minority leader of the Senate; and

"(iii) one member shall be appointed by the Speaker and one member shall be appointed by the minority leader of the House of Representatives.

"(C) Appointments shall be made from the individuals who are specially qualified to serve on the Corps by virtue of their education, training, and experience, particularly in the area of international trade, who have done business in or with at least one of the designated Central European countries.

"(D) Each member shall serve at the pleasure of the appointing official and shall serve without pay for such service. Members shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in carrying out their functions in the same manner as persons employed intermittently in the Federal Government are allowed expenses under section 5703 of title 5, United States Code.

"(E) Three Members shall constitute a quorum for the transaction of business. Meetings

31-738 O - 90 - 3

shall be at the call of the Chairperson who shall be elected by the members of the Corps.

"(F) The Corps shall not have any authority to appoint staff, but upon request of the Chairperson, the head of any Federal department or agency may detail, on a reimbursable basis, any of the personnel of such department or agency to the Corps to assist in carrying out the Corps' functions under this section without regard to section 3341 of title 5, United States Code. The Administrator of the General Services Administration shall provide to the Corps, on a reimbursable basis, such administrative support services as the Corps may request.

"(d) In order to be eligible to participate, the educational institution in each designated Central European country shall—

"(1) agree to provide partial financial support for the program either directly or indirectly, during the second and third years of the demonstration program; and

"(2) agree to obtain private sector involvement in the delivery of assistance under the program.

"(e) Members of the Commission shall serve without pay, except they shall be entitled to reimbursement for

travel, subsistence, and other necessary expenses incurred by them in carrying out their functions in the same manner as persons employed intermittently in the Federal Government are allowed expenses under section 5703 of title 5, United States Code.

"(f) Two Commissioners shall constitute a quorum for the transaction of business. Meetings shall be at the call of the Chairperson who shall be elected by the Members of the Commission.

"(g) The Commission shall not have any authority to appoint staff, but upon request of the Chairperson, the head of any Federal department or agency may detail, on a reimbursable basis, any of the personnel of such department or agency to the Commission to assist in carrying out the Commission's functions under this section without regard to section 3341 of title 5, United States Code. The Administrator of the General Services Administration shall provide to the Commission, on a reimbursable basis, such administrative support services as the Commission may request.

"(h) Except as otherwise prohibited by law, the Commission may secure directly from any department or agency of the United States information necessary to enable it to carry out its duties under this section. Upon the request of the Chairperson, the head of such department or agency promptly shall furnish such information to the Commission.

"(i) The Commission shall contract to complete the activities specified in paragraphs (1) through (3) of subsection (b) of this section by July 1, 1991, and shall contract for the performance of the activities specified in paragraph (4) of subsection (b), with commencement by September 1, 1991.

"(j) The Commission shall report to Congress not later than July 1, 1991, and annually thereafter, on the progress in carrying out the provisions of this section.

"(k) There are hereby authorized to be appropriated to the Small Business Administration the sum of $10,000,000 for each of fiscal years 1991, 1992, and 1993 to carry out the provisions of this Act. The Commission may transfer to the Corps not to exceed $1,000,000 per year to provide for the expenses of the Corps in carrying out its function as provided in subsection (c)(4) of this section. Such sums shall be disbursed by the Small Business Administration as requested by the Commission.".

SEC. 3. Any authority to enter contracts or other spending authority provided for in this Act is subject to amounts provided for in advance in appropriations Acts.

○

TESTIMONY OF M. P. KOBELINSKI BEFORE U. S. CONGRESSIONAL COMMITTEE ON SMALL BUSINESS REGARDING CENTRAL EUROPEAN ENTERPRISE DEVELOPMENT ACT OF 1990

MR. CHAIRMAN (JOHN LaFALCE), MEMBERS OF THE COMMITTEE:

IT HAS BEEN MORE THAN 13 YEARS SINCE I LAST ADDRESSED THIS COMMITTEE AS THE ADMINISTRATOR OF THE U. S. SMALL BUSINESS ADMINISTRATION. IT IS A PLEASURE TO BE CALLED UPON TO ONCE AGAIN ADDRESS YOU ON THE SUBJECT OF SMALL BUSINESS & ENTREPRENEURSHIP. IT IS PARTICULARLY SO BECAUSE OF THE TURN OF EVENTS IN CENTRAL AND EASTERN EUROPE, WHICH GIVES RISE TO THE NEED FOR THE LEGISLATION BEING INTRODUCED BY CONG. JOHN LAFALCE.

AFTER RETURNING TO THE PRIVATE SECTOR IN MARCH OF 1977, I ESTABLISHED AN INTERNATIONAL TRADING COMPANY WITH OFFICES IN CHICAGO AND WARSAW, POLAND. I HAVE OWNED AND OPERATED COMPANIES IN TRADE AND MANUFACTURING IN POLAND EVER SINCE. DURING THESE YEARS, ATTITUDES TOWARD PRIVATE ENTERPRISE HAVE OSCILLATED CONSIDERABLY, BUT TODAY NO QUESTION IN THIS AREA REMAINS -- POLAND IS DETERMINED TO INTRODUCE A FREE MARKET ECONOMY AND PROMOTE PRIVATE ENTERPRISE.

UNFORTUNATELY, AS SO MANY THINGS IN LIFE, IT IS EASIER SAID THAN DONE. AFTER 50 YEARS OF RULE BY AUTHORITARIAN ENTITIES, INCLUDING SIX YEARS OF NAZI OCCUPATION, VERY FEW PEOPLE REMAIN WITH TRUE HANDS ON EXPERIENCE IN THE WORKINGS OF A FREE ENTERPRISE ECONOMY. PURE PASSAGE OF TIME HAS BROUGHT US TO A POINT WHERE A 25 YEAR OLD PRE-WAR BUSINESSMAN WITH A FEW YEARS OF EXPERIENCE WOULD NECESSARILY BE AT LEAST 75 OR 80 YEARS OLD TODAY.

CONSEQUENTLY, IT BECOMES QUITE OBVIOUS THAT MORE THAN JUST CAPITAL RESOURCES WILL BE REQUIRED IN THESE NEW "FREE MARKET ECONOMIES.

AS ADMINISTRATOR OF THE S.B.A., AND IN THE YEARS FOLLOWING, I WAS OFTEN ASKED WHAT PART OF THE S.B.A. PROGRAM WAS MOST HELPFUL AND WHICH THE LEAST HELPFUL TO SMALL BUSINESS. -- MY RESPONSE TO THIS QUESTION WAS EASY FOR ME, AFTER WITNESSING THE S.B.A. ACTIVITIES FROM THE OFFICE OF THE ADMINISTRATOR -- THE LEAST BENEFICIAL, ON THE WHOLE, WAS THE DIRECT LOAN PROGRAM, THE MOST BENEFICIAL WERE THE ACTIVITIES DESIGNED TO GIVE MANAGEMENT AND TECHNICAL ASSISTANCE TO SMALL BUSINESS. SOMEWHERE, IN THE MIDDLE, WERE THE LOAN GUARANTEE PROGRAMS. -- IN COUNTRIES WHERE IT HAS BEEN DIFFICULT, IF NOT IMPOSSIBLE, TO GET ON-THE-JOB TRAINING IN ENTREPRENEURSHIP, CAN THERE BE ANY QUESTION THAT IN ORDER TO HAVE A RAPID AND EFFECTIVE CHANGE TO A FREE MARKET -- ENTREPRENEURS WILL HAVE TO BE ASSISTED AND TRAINED.

I HAD THE PLEASURE OF GRANTING THE FIRST CHARTER OF AUTHORITY TO RUTGERS UNIVERSITY TO BEGIN WHAT WAS THEN CALLED THE U.B.D.C., THE UNIVERSITY BUSINESS DEVELOPMENT CENTER. I BELIEVE I AUTHORIZED A TOTAL OF 5 SUCH INITIAL CHARTERS IN 1975. CONGRESS, IN ITS WISDOM, SUBSEQUENTLY CODIFIED THIS ACTIVITY OF THE S.B.A. BY AMENDING THE ACT TO FORMALIZE SMALL BUSINESS DEVELOPMENT CENTERS (S.B.D.C) IN 1980. CENTERS OF THIS TYPE HAVE BLOSSOMED ACROSS OUR COUNTRY IN THE PAST TEN YEARS AND HAVE PROVEN TO BE EXTREMLLY EFFECTIVE IN HELPING SMALL BUSINESS.

IN A COUNTRY WHERE ENTREPRENEURSHIP HAS FLOURISHED LIKE NO WHERE ELSE IN THE WORLD, THE NEED FOR MANAGEMENT AND TECHNICAL ASSISTANCE TO SMALL BUSINESS THROUGH GOVERNMENT SPONSORED PROGRAMS HAS BECOME UNQUESTIONED. CAN ANYONE SERIOUSLY QUESTION THE NEED FOR SUCH ASSISTANCE IN COUNTRIES THAT HAVE OPERATED IN AN ENVIRONMENT OF STATE PLANNING, OWNERSHIP AND MANAGEMENT FOR THE PAST 50 YEARS? I THINK NOT!

ONE OF THE MOST EFFECTIVE WAYS OF ASSISTING SMALL BUSINESS IN AMERICA HAS BEEN THE USE OF EXPERIENCED VOLUNTEER RETIRED BUSINESSMEN, "SCORE," THE SERVICE CORP. OF RETIRED EXECUTIVES." NOTHING TAKES THE PLACE OF EXPERIENCE. THIS FANTASTIC CADRE OF VOLUNTEERS, WHO ARE ALSO AN INTEGRAL PART OF THE S.B.D.C. PROGRAM, HAVE BEEN THE BACKBONE OF THE SBA'S MANAGEMENT ASSISTANCE PROGRAM, FOR YEARS. THEY HAVE SAVED THOUSANDS OF SMALL BUSINESSES FROM FAILURE AND POOR PERFORMANCE, THEREBY ALSO SAVING THOUSANDS OF JOBS AND PROVIDING PRODUCTIVE TAX PAYING CITIZENS AND COMPANIES -- I ENCOURAGE YOUR COMMITTEE TO CONTINUE TO SUPPORT THIS ASPECT OF THE S.B.A.

AS A NATION, WE SUCCESSFULLY LEAD A STRUGGLE AGAINST A SOCIALIST SYSTEM THAT DENIED INDIVIDUAL FREEDOM AND INHIBITED THE PURSUIT OF HAPPINESS FOR HUNDREDS OF MILLIONS OF OUR FELLOW MEN. TODAY, WE PROUDLY OBSERVE THE DECLINE OF THIS SYSTEM AND THE PROLIFERATION OF OUR "FREE MARKET" ECONOMIC SYSTEM, ACCOMPANIED BY DEMOCRACY AND PERSONAL FREEDOM. -- THIS "VICTORY" IS PROBABLY THE GREATEST OF ALL AMERICAN AND FREE WORLD VICTORIES BECAUSE IT WAS WON BY MEANS OTHER THAN DEATH AND DESTRUCTION FOR OUR ENEMIES. HOWEVER, OUR VICTORY WILL NOT BE COMPLETE OR CONSOLIDATED UNTIL WE ARE CONFIDENT THAT A FREE MARKET ECONOMY IS FLOURISHING IN THESE COUNTRIES. THAT IS PRECISELY WHY THE BILL THAT YOU ARE CONSIDERING TODAY IS NOT JUST ANOTHER WAY TO GIVE AWAY TAX PAYER'S MONEY, BUT A CONTINUATION OF THE SAME BATTLE THAT WE HAVE FOUGHT FOR THE MINDS AND HEARTS OF THE PEOPLE IN CENTRAL AND EASTERN EUROPE. WE MUST DEMONSTRATE THAT WE REALLY NEED AND WANT THEM AS A PART OF OUR "FREE WORLD" -- "FREE MARKET" ECONOMY.

THE CHANGE FROM THE OLD ECONOMIC SYSTEM TO THE NEW WILL NOT COME EASY. I WAS IN POLAND AND THE SOVIET UNION JUST A FEW WEEKS AGO. IN POLAND, THE

DRASTIC CHANGE HAS CREATED TREMENDOUS HARDSHIPS ON THE AVERAGE WORKING MAN AND ALMOST IMPOSSIBLE LIVING CONDITIONS FOR RETIREES. ONLY A RAPID DEVELOPMENT OF NEW COMPETITIVE SMALL BUSINESS CAN HELP FILL THE MARKET WITH PRODUCTS AT REASONABLE PRICES AND CREATE THE JOBS THAT ARE NEEDED BY THE NEWLY UNEMPLOYED. -- THE VICTORY OF OUR SYSTEM AND THE ABSOLUTE FAILURE OF THEIRS HAS CAUSED AN UNPRECEDENTED DROP IN THE STANDARD OF LIVING AND HARDSHIPS WHICH ARE DIFFICULT TO DESCRIBE ADEQUATELY. -- THE PEOPLE OF THE SOVIET UNION ARE ALSO EXPERIENCING THE BEGINNINGS OF A CHANGE TO A MARKET ECONOMY. ALTHOUGH THIS BILL DOES NOT INCLUDE THE U.S.S.R. -- IT MAY SOMEDAY SOON BE NECESSARY TO PROVIDE MANAGEMENT TRAINING THERE SINCE THEIR EXPERIENCE IN ENTREPRENEURSHIP IS ALMOST NON-EXISTENT.

DURING THIS VISIT TO WARSAW, I MET WITH DR. ANDRZY ARENDARSKI, MEMBER OF THE POLISH SEJM (PARLIAMENT). HE SERVES AS THE CHAIRMAN OF THE SMALL BUSINESS COMMITTEE OF THE SEJM, AS WELL AS THE CHAIRMAN OF POLAND'S INTERNATIONAL CHAMBER OF COMMERCE. I HAVE HAD SEVERAL MEETINGS WITH DR. ARENDARSKI, BEGINNING WITH HIS VISIT TO THE UNITED STATES IN NOVEMBER OF 1989 WHEN HE ADDRESSED THE POLISH AMERICAN ECONOMIC FORUM CONVENED IN CHICAGO. IN A MEMORANDUM PREPARED FOR DR. ARENDARSKI HIS REQUEST, ONE OF THE SUGGESTIONS WHICH I HAVE MADE IS TO CREATE AN AGENCY COMPARABLE TO THE SBA IN THE POLISH GOVERNMENT, TO COORDINATE THE SUPPORT AND ESTABLISHMENT OF SMALL BUSINESSES IN POLAND. THE PROVISIONS OF THIS BILL WOULD CERTAINLY PROVIDE A MAJOR FIRST STEP IN THE DIRECTION OF THIS KIND OF AGENCY, SINCE IT IS ENTIRELY POSSIBLE THAT WITH A PROLIFERATION OF S.B.D.C. TYPE FACILITIES IN POLAND, A GOVERNMENT AGENCY WILL BE REQUIRED TO COORDINATE AND SUPPORT THESE EFFORTS.

CONSEQUENTLY, I BELIEVE MOST FERVENTLY THAT THE ASSISTANCE PROPOSED THROUGH THE ENACTMENT OF THIS BILL IS ESSENTIAL TO MOVE THE RECIPIENT COUNTRIES

INTO SUCCESSFUL FREE MARKET ECONOMIES WITHIN AN ACCEPTABLE PERIOD. -- I BELIEVE WE FACE THE DANGER OF A POPULAR REACTION AGAINST THE LEADERSHIP IN THESE COUNTRIES THAT ARE TRYING TO CREATE A NEW ECONOMIC STATE, IF THE CHANGE BECOMES TOO PROLONGED. -- I BELIEVE WE NEED TO ACT QUICKLY, I BELIEVE THE CONCEPT OF THE "AMERICAN ENTERPRISE CORP" IS SUPERB. -- IT WILL HARNESS THE EXPERIENCE OF OUR SUCCESSFUL BUSINESSMEN AND PLANT THESE STRONG SEEDS OF ENTREPRENEURSHIP IN A WAY THAT CAN CAUSE SMALL BUSINESS TO BLOSSOM AND SUCCEED QUICKLY. THESE ARE NOT PRIMITIVE DEVELOPING COUNTRIES, THEY ARE POPULATED BY MANY AMBITIOUS, INTELLIGENT AND WELL-EDUCATED MEN AND WOMEN. THEY NEED THE TOOLS OF BOTH CAPITAL AND MANAGEMENT ADVICE. OUR HELP IN THE AREA OF CAPITAL HAS BEEN MODEST AND SLOW IN DELIVERY UP TO THIS POINT. I SINCERELY HOPE THAT THROUGH THE RAPID ENACTMENT OF THIS BILL, WE CAN DEMONSTRATE THAT WE ARE TOTALLY SINCERE IN WANTING TO HELP MAKE THESE ECONOMIES FLOURISH AS QUICKLY AS POSSIBLE.

VOLUNTEERS MUST BE ORGANIZED, SCREENED AND PROPERLY DIRECTED. TO DO THIS, A PROFESSIONAL ORGANIZATION WITH ADEQUATE EXPERIENCE IN THOSE COUNTRIES, SHOULD TAKE CHARGE. I HOPE YOU WILL REALIZE THAT A SERIOUS RECRUITING EFFORT EVEN WITH THE HELP OF THE S.B.A. WILL NOT BE ACCOMPLISHED WITHOUT PROFESSIONALS.

HAVING SERVED IN BOTH THE NIXON AND FORD ADMINISTRATIONS, YOU MIGHT EASILY GUESS MY ATTITUDE TOWARD SPENDING TAXPAYER'S DOLLARS. HOWEVER, THE SUGGESTED FUNDING FOR THE AMERICAN ENTERPRISE CORP. IS TRULY INADEQUATE IN MY OPINION. -- IF WE ARE TO BE SERIOUS ABOUT THIS, AND WE SHOULD BE, THEN IT WILL TAKE MUCH MORE FUNDING THAN 1 MILLION DOLLARS TO HELP IN THREE COUNTRIES. I ASK THAT THIS COMMITTEE UNANIMOUSLY REPORT OUT THIS BILL AND PROVIDE AN APPROPRIATION THAT WILL BE EQUAL TO THE TASK THAT LIES AHEAD. -- LET US CONSOLIDATE OUR VICTORY BY MAKING FREE ENTERPRISE BLOSSOM IN CENTRAL AND EASTERN EUROPE WITHOUT DELAY!

ALLOW ME TO CONCLUDE MY REMARKS ON A SEPARATE NOTE WHICH HAS DISTURBED ME SINCE THE INCEPTION OF A FREE MARKET IN POLAND AND THE OPENING OF ITS DOORS FOR FOREIGN INVESTMENT. I TRAVEL TO POLAND OFTEN AND WITNESS THE LITERAL INVASION OF POTENTIAL FOREIGN INVESTORS, SCORES OF JAPANESE, GERMAN, ITALIAN, SWEDISH, FRENCH AND KOREAN BUSINESSMEN AND THE VERY SMALL SMATTERING OF AMERICAN BUSINESS REPRESENTATIVES. THOSE FEW THAT I SEE ARE GENERALLY TIED TO SOME TRIP OR MISSION SPONSORED BY A GOVERNMENT ENTITY AND ARE BUSY LISTENING TO GENERALITIES EXPOUNDED BY EITHER AMERICAN OR POLISH GOVERNMENT OFFICIALS. THE SERIOUS AMERICAN BUSINESSMAN WILLING TO MAKE THE COMMITMENT TO INVEST IN POLAND IS HARDLY TO BE FOUND. THE HIGHLY TOUTED ENTERPRISE FUND HAS YET TO PUT FORTH ITS FIRST DOLLAR IN POLAND AND OPIC IS VIRTUALLY IN THE SAME POSITION. ONLY IN THE PAST FEW WEEKS HAS EXIMBANK OPENED ITS DOORS FOR MEDIUM TERM CREDITS AS ANNOUNCED BY THE PRESIDENT, AND THAT IS THANKS TO THE CONSTANT PRESSURE OF THE CHAIRMAN OF THIS COMMITTEE, JOHN LAFALCE. ONE DAY, IN THE NEAR FUTURE, WE WILL READ THE STATISTICS CONCERNING CENTRAL AND EASTERN EUROPE AND LEARN THAT AMERICANS OCCUPY THE LAST PLACE AMONG WESTERN INVESTORS IN THESE DYNAMIC NEW ECONOMIES. THE MACHINERY, EQUIPMENT, AND TECHNOLOGIES WILL BE FLOWING FROM COUNTRIES OTHER THAN THE UNITED STATES, BECAUSE THE INVESTORS OF THOSE COUNTRIES WILL BE BUYING AT HOME. WE WILL LOOK AT OUR BALANCE OF TRADE AND CONTINUE TO SCRATCH OUR HEADS WONDERING WHY WE ARE NOT OCCUPYING OUR APPROPRIATE POSITION. THE CONGRESS HAS PASSED SEED ACT I AND IS CONSIDERING SEED ACT II. MY FRIENDS IN POLAND LOOK TO AMERICA WITH THE HOPE OF SEEING THE UNITED STATES IN THE LEAD POSITION AS AN INVESTOR IN POLAND. UNFORTUNATELY, THEY ARE NOW ASKING WHEN WILL WE SEE THE FIRST DOLLARS OF ALL THESE TOUTED PROGRAMS. WHEN WILL AMERICANS STOP COMING IN MISSIONS TO REVIEW ECONOMIC CONDITIONS AND START COMING WITH MEANINGFUL BUSINESS INTENTIONS. NO

AMERICAN BANK HAS OPENED A BRANCH IN POLAND, WHILE MORE THAN 10 FOREIGN BANK LICENSES HAVE ALREADY BEEN ISSUED BY THE POLISH CENTRAL BANK. THIS COMMITTEE PROBABLY CANNOT HAVE ANY MAJOR IMPACT IN CHANGING THESE SAD FACTS, BUT I THOUGHT IT WOULD BE USEFUL TO BRING THE REALITIES TO YOUR ATTENTION.

HOWEVER, THERE MAY BE ONE THING IN WHICH CONGRESS MAY BE HELPFUL REGARDING EXPORT IMPORT BANK ACTIVITY. FOR MANY YEARS, THE EXIMBANK HAS PROVIDED LINES OF CREDIT TO FOREIGN BANKS TO ENCOURAGE PURCHASE OF AMERICAN PRODUCTS BY SMALL BUSINESSES IN VARIOUS FOREIGN COUNTRIES. THE PROGRAM IS IN USE, I AM TOLD IN YUGOSLAVIA. THE PRACTICE IN THE PAST WAS TO PROVIDE DIRECT LINES OF CREDIT TO THE FOREIGN BANK. MORE RECENTLY, IT HAS BEEN TO ENCOURAGE MAJOR PRIVATE BANKS TO PROVIDE SUCH LINES OF CREDIT TO FOREIGN BANKS WITH THE EXIMBANK GUARANTEE. IN EITHER EVENT, THIS FACILITY HAS HAD A PAST RECORD OF SUCCESSFULLY ENCOURAGING SMALL LOANS FOR ACQUISITION OF AMERICAN EQUIPMENT. TODAY, THIS TYPE OF FACILITY IS DESPERATELY NEEDED IN POLAND AND HUNGARY. I WOULD HOPE THAT THE APPROPRIATE COMMITTEE OF THIS CONGRESS SEES TO IT THAT EXIMBANK EXTENDS ITS FACILITIES TO ONE OR MORE BANKS IN POLAND AND HUNGARY TO HELP SMALL BUSINESS BUY AMERICAN EQUIPMENT.

I THANK YOU ONCE AGAIN AND I AM AT YOUR DISPOSAL.

TESTIMONY

HOUSE SMALL BUSINESS COMMITTEE

EDWARD M. MOLDT

**SBDC EXTENSION TO POLAND,
HUNGARY AND CZECHOSLOVAKIA**

**Managing Director, Snider Entrepreneurial Center
Wharton School
University of Pennsylvania**

I appreciate the opportunity to testify in support of House Bill HB-4999. First, let me compliment you, Mr. Chairman, on the introduction of legislation which, if enacted, will provide strong and continuing support to the efforts of the Central European Countries to move toward market economies.

My support of the Small Business Development Centers program stems from my experiences as a practicing entrepreneur and as the Managing Director of the Snider Entrepreneurial Center at the University of Pennsylvania's Wharton School.

As an entrepreneur, I can testify to the value of good management assistance during the development of a business. I own and operate about 200 businesses acquired or started over the past 20 years. That experience has taught me that good, sound information - which is what Small Business Development Centers' consultants provide - can help a small business owner avoid costly mistakes. It is practically impossible for a fledgling business

to survive long term if the owner cannot find practical solutions to business problems. An entrepreneur can be overwhelmed trying to work alone without the benefit of informed assistance.

My experience has also taught me the value of marketing. I know how important it is for me to create a niche for my business if I want it to be successful. I also know that I have to develop a competitive advantage vis a vis others in the field if my business is to prosper. It will take a tremendous concentrated educational effort to train people to think about the issues of market and position if it has not been part of their culture. I can imagine what a wrenching change I would be facing if my companies were in Poland, Hungary or Czechoslovakia.

As managing director of the Snider Entrepreneurial Center, which serves as a base for the ~~Wharton~~ SBDC, I have seen the power of the SBDC concept in action. The Wharton SBDC is Pennsylvania's lead Small Business Development Center, one of 14 in the state's network. I have been impressed by the quality of the consultants that the program attracts. At Penn, the consultant positions are largely staffed by MBA students with a wide range of business experience behind them. It is a much sought after position, with 12 applicants for every place. In most of the rest of the Commonwealth's SBDCs, the consultants are permanent staff with backgrounds in banking, small business, marketing and regional economic development.

I have seen the SBDC prove itself in the scope of consulting undertaken and successfully completed, in the capital raised by

SBDC clients for start-up and expansion; in the level of the seminars and programs it conducts to enhance the business owners skill levels; and in the very real difference the program makes in the success of client businesses. Repeatedly, the SBDCs receive letters from small business owners testifying to the importance of the SBDC assistance: phrases like "I wouldn't be here without the SBDC"; "I know so much more about running my business thanks to the SBDC consultant"; and "the bottom line is that the SBDC helped my bottom line."

What I have seen work so well in Philadelphia also works in the rest of the state, in places as diverse as Loretto, Scranton, and Pittsburgh. Our SBDCs all provide the same basic services; they provide quality business management assistance to small business owners, helping them to guide their firms so that they grow and prosper. There are certain fundamentals such as marketing and planning for capital needs that they all teach through workshops and individual consulting. The SBDCs differ, however, in that they offer programs to meet specialized needs in their areas. For instance, an SBDC in a rural area might design a seminar on managing a lumber mill while an SBDC located in an urban environment would conduct a seminar on growing software businesses.

SBDC consultants know that successful marketing depends on knowledge of the environment. The distributor of energy-efficient lighting and heating equipment came to our SBDC at Wilkes University in Wilkes-Barre puzzled because he was having trouble finding customers. He had moved from an urban area to a region

with 40 to 50 small towns that he had targeted for sales, an area with no competing businesses. Working with the consultant, it became clear to the entrepreneur that the marketing approach he had brought with him from a big city was inappropriate. In small towns, businesses succeed through personal contact and word of mouth. The consultant suggested that the distributor make friends first, then do business. He advised him to join the local business associations, make personal calls, and to get to know the area.

His first sales came from some local firehouses, but his big break came when one of the local churches hired him to help the save money in lighting and heating expenses. Once accepted, the communities welcomed his services and his products; the business has since built a warehouse in the area and continues to thrive.

Each business problem is unique in some ways and fundamental in others. The same could be said of SBDCs. They teach basic business skills, they extend their reach in their communities through networks with other economic development groups, and they have the flexibility and knowledge to respond to the needs of their particular regions.

The program proposed in this bill is one of the most innovative I have seen suggested for the restructuring of businesses in Central Europe. The following are the points that I think make this plan particularly worthy. It:

Uses a model that has proven itself adaptable and successful at small business assistance .

Transfers new skills to consultants, and university and

technical school faculty and students in Poland, Czechoslovakia, and Hungary.

Provides a method for those consultant/faculties and students to assist existing and start-up businesses by using these new skills.

Provides a basic program that, once established, will act as a catalyst for the formation of other public and private organizations for the support of business development.

Provides support of Central European small business assistance through liaison with consultants in the United States SBDCs and with U.S. faculty and students actively working with issues of entrepreneurship.

Eliminates "ramp up" time because model already exists requiring essentially teaching that model in Poland, Czechoslovakia, and Hungary.

Acquaints our SBDC consultants with the unique cultural implications of doing business in Central Europe.

Provides a network that could significantly effect the export to and introduction of U.S. products in Central European businesses.

An economic development model devised by the University of Illinois projects substantial leverage in job creation for every new manufacturing job created. I believe that the model projects approximately four new jobs created in a community over a five year period for every new manufacturing job created today. Poland, Hungary, and Czechoslovakia face significant layoffs and economic dislocation as inefficient industries slim down to competitive size.

Your proposed bill provides an economical and effective method for stimulating smaller businesses so that they will be able to hire those who are dislocated from the large companies. As we have

seen in the U.S. over the past ten years, major U.S. companies lost some 3.5 million jobs while companies employing less than 100 people increased jobs by some 26 million jobs.

Our greatest effect on the economies of Poland, Hungary, and Czechoslovakia will be the revitalization of their small businesses.

Your proposed legislation can make that happen.

TESTIMONY

HOUSE SMALL BUSINESS COMMITTEE

SBDC EXTENSION TO POLAND,
HUNGARY AND CZECHOSLOVAKIA

D. Bruce Merrifield, Ph.D.
Former Assistant Secretary for Productivity,
Technology and Innovation U.S. Department of Commerce

The primary definition of an underdeveloped county is one in which the entrepreneurial function has been made illegal. The entrepreneur is society's agent of change, who initiates, develops, and renews a nation's industrial base, while creating new wealth. In the marxist-socialist countries where entrepreneurial activity has been relegated to the underground economy, those economies have stagnated, and the people have been consigned to poverty.

However, where political stability has coincided with encouragement of entrepreneurial activity (Japan, Taiwan, South Korea, Singapore, Thailand, Chile), those economies have grown, resulting in expanding markets and a higher quality of life. Entrepreneurial activity has been at the heart of the American culture, starting with the pioneering spirit of early settlers, and continuing to present-day advanced, technology-based new product, process and service small business creation.

For the last decade the U.S. has been generating 600,000 to 700,000 new businesses each year (684,000 in 1989) and two to three million new jobs each year (a net of 20 million between 1980 and 1990). The Europeans call it the "American Miracle" since they have lost jobs over the same period. About 80 percent of the 20

million new jobs were created by small businesses, two-thirds of them with less than 25 employees, while the Fortune 500 companies lost three million jobs. About one-third of the new businesses formed were manufacturing businesses, each of which tend to spawn many support or service jobs (maintenance, construction, legal, financial, communications, marketing, distribution, clerical, etc.). Small business manufacturing is, in fact, the driver and job-multiplier of the U.S. economy. (Over 90 percent of U.S. manufacturing businesses have less than 100 employees.)

THE SBDC MODERN MARSHALL PLAN

In recent years, rapidly advancing technology has created an historically unprecedented opportunity to develop new products, processes and services, and to create new wealth. This results from the fact that about 90 percent of all scientific knowledge has been generated over just the last 30 years, and likely will double again in the next 15 years. It is being generated by about 90 percent of all the scientists and engineers who have ever lived and now are working.

Moreover, new business creation, that builds on this exploding technology base, is no mystery. It can be effectively replicated almost anywhere in the world, given the freedom to do so. The irrevocable discrediting of the marxist-socialist paradigm in the eyes of the world, now has opened a window of opportunity for a "modern Marshall Plan" based on entrepreneurial development of small businesses.

A number of well tested models exist for doing this. A first step, however, is to create an SBDC presence in each country. This can be accomplished by identifying exemplary university-based small business development centers programs in the United States, matching these programs with appropriate Central European institutions and employing the Small Business Development Center and United States university resources to design business assistance programs that meet the cultural and economic conditions in the host country. Once these matches have been identified, United States Small Business Development Centers and appropriate university resources can be employed to train the local staff so that a well managed, effective, and self sustaining new business development assistance and management consultation program will be established in the Central European institution. This program then can provide the liaison for a number of specific functions, including, for example, interchange of faculty from U.S. business schools with local universities, joint venture contacts, and technology licensing arrangements.

The process of new business formation is a specialized discipline that requires more than facilities, equipment and capital, although these are important. It also requires a detailed understanding of the staged phases required for scale-up and interim production. The most effective method for acquiring this expertise is through joint venture partnership arrangements with U.S. companies. The U.S. Department of Commerce INPACT program (International Partnerships for Commercialization of Technology)

is a well demonstrated model. The pilot program with Israel, since 1980 has formed about 225 joint venture arrangements between Israeli and U.S. companies that have generated well over one billion dollars in direct and indirect sales, with a return in new tax revenues of three times the seed funded investments.

Comparable very successful binational arrangements currently are operating between the U.S. and India, Finland, Chile and France, with many more in various stages of implementation. These joint venture arrangements have a number of important benefits:

- They jump-start developing nation businesses to the leading edge of technology -- a process that could take many years alone.
- They multiply the market potential for a new development at reduced cost and risk.
- They open access to foreign markets for small and medium sized U.S. companies and otherwise would not have such access.
- They access foreign technology (about 70 percent of the technology involved with the Israeli program, initiated in Israel. About 80 percent of the technology in the India program has initiated there.)
- Finally, and perhaps most important of all, this process builds the small business middle class in developing countries, which has a stake in political and economic stability, and is necessary to sustain democratic forms of governance!

A combination of this type of initiative with the traditional SBDC expertise, and a collaborative business school arrangement that teaches entrepreneurial-incentive management, could have a profound effect in accelerating economic development, and increase the quality of life of these and other developing nations.

The original Marshall Plan primarily benefited the U.S., as the war devastated economies of Europe where resuscitated, and tremendous export markets developed for U.S. companies. This "modern" Marshall Plan will be equally beneficial for all concerned.

Testimony

HOUSE SMALL BUSINESS COMMITTEE

Charles E. Bishop
President Emeritus, University of Houston System and
Special Assistant to the Provost, University of North Carolina
at Chapel Hill

Thank you, Mr. Chairman, for affording me the opportunity to appear before your Committee in support of House Bill 4999. My comments in support of this well-timed legislation come from three perspectives: first, from my experience as an economist; second, from my extensive experience as a senior academic administrator and finally, from my recent experience with the SBDC program in North Carolina.

I have been amazed at the speed with which political and economic changes are occurring in Central Europe. The structured, planned economies are being rapidly transformed into market-driven economies. Political change has been accompanied by highly elevated, often naive, expectations of short-run economic gain to be derived from this transition.

This transition, however, will not be quickly made and it will be painful. Neither Poland nor Hungary have had a well developed market system, and it has been nearly 50 years since Czechoslovakia was market-oriented. The development of an efficient market system will require modifications in the infrastructure to facilitate the efficient flow of information, resources and products. It will also require a new way of thinking, focused upon cultivation of the entrepreneurial spirit

and capitalizing upon opportunities to engage in and profit from business ventures. While the pace may be rapid, the failures will be numerous, and disillusionment could become widespread.

There are four critical factors that should be recognized in any effort to extend the SBDC program to Central Europe.

1. Change is fueled by rapidly rising expectations that have been submerged for many years. However, it is important that these expectations be realistic. A very high percentage of small businesses end in bankruptcy. A well-conceived program of instruction and counselling can help to prevent failures and to promote successes. In order to minimize failures it is important that the program be capable of providing short-term impact and that it be highly visible. The SBDC program meets these conditions. It is a proven concept. It has produced tangible results by effectively building a bridge between resources and know-how and the business community. Our experience in North Carolina certainly confirms the potential of this sound approach.
   It is impractical, however, to introduce a program of the magnitude that would be required to meet the needs of the host countries in a short time period. H.B. 4999 wisely calls for the introduction of a demonstration-type program in at least two educational institutions in each of the host countries. A program of the size

contemplated should be sufficient to demonstrate the validity of extending the SBDC concept to Central Europe while at the same time gaining visibility. As the demonstrations prove effective, they can be extended to other locations in the host countries to provide access throughout them. This is the procedure that we have successfully employed in extending the SBDC program to all of the Universities in the University of North Carolina system. Through the host universities and "circuit-rider" programs conducted in cooperation with local community colleges and chambers of commerce, citizens throughout North Carolina now have access to the SBDC program.

2. We must recognize that money alone will not assure the successful transformation of the Central European economies. What is critically needed is "know-how". This includes a massive educational effort to prepare the political, educational and business leadership in these countries to facilitate the development of a small and mid-sized business base which can operate and prosper in a market economy, and a reliable system of advice and consultation for fledgling entrepreneurs. This educational effort must be solidly grounded in a source of reliable information concerning market conditions, capital needs and managerial and technical

requirements for successful operation of new businesses.

3. The SBDC programs in this country are extensions of the state universities. As such, they have ready access to the expertise and information resident in the universities. It should be emphasized, however, that the American university is unique in the world in its commitment to outreach and public service. The SBDC and Cooperative Extension Service programs are but two important examples of a strong and very diverse base of support and commitment to the community found in our colleges and universities. However, this is not typical of European universities and, as a consequence, it will be necessary to identify universities and other cooperating institutions that can be encouraged to become the type of "change agent" which has been so characteristic of American universities. The need for an SBDC program will be a continuing one if Central Europe is to be brought into the world economy which is characterized by private enterprise, technical research and rapidly changing technology. It is essential that the program be properly institutionalized both in the U.S. and in Central Europe in order to be operated successfully over an extended period of time.

Several of our university professors recently visited Central Europe to identify universities and institutes that would be willing to cooperate in this type of program. They also found associations of cooperatives and small businesses that were receptive. They were warmly received.

4. Recent events in Central Europe create a truly unique opportunity for American leadership. Poland, Hungary and Czechoslovakia are looking to the U.S. as a source of ideas through which to nuture and build the emerging entrepreneurial spirit necessary to meet their economic challenges. The visit to institutions in Poland, Czechoslovakia, Hungary and Yugoslavia by representatives of the Kenan Institute for Private Enterprise and the School of Business of The University of North Carolina at Chapel Hill indicated clearly that the responding institutions wished to have <u>direct</u> contact with Americans, and especially with American universities-institutions that are known worldwide for their freedom. They also indicated a desire to establish formal relations quickly and to develop programs of a "practical" and "applied" nature that would facilitate the growth of private enterprise. We are clearly the country of choice, and we should not miss this opportunity.

These visits produced one other finding that should be considered. The vast preponderance of enterprise managers with whom the concept was discussed desired to establish immediate collaboration with MBA graduates, being willing to pay "going managerial salaries" for the purpose of assistance on feasibility studies, experience in operating in free markets, and information on how to penetrate foreign markets. We have been able to use MBA interns and graduates effectively in the SBDC program in North Carolina. The American Enterprise Corps, proposed in H.B. 4999, could be modified to incorporate an MBA Enterprise Corps.

In closing, Mr. Chairman, I congratulate you for your initiative in proposing the extension of the SBDC program to Central Europe. House Bill 4999 is responsive to current needs in Poland, Hungary and Czechoslovakia. It is focused and builds on the strengths of a proven concept. It would have tangible impact and potential visibility even in the short term.

I am pleased to support your initiative and hope that this timely and important proposal receives the support of your colleagues in the House of Representatives and the Senate.

Thank you.

Testimony
of
John C. Rennie
Chairman/CEO
Pacer Systems, Inc.
900 Technology Park Drive
Billerica, MA 01821
(508) 667-8800

to the

U.S. House of Representatives
Committee on Small Business

concerning

H.R. 4999
"Central European Enterprise Development
Act of 1990"

June 20, 1990

Good Morning Mr. Chairman and Members of the Committee:

I am most appreciative of the opportunity to testify today concerning H.R. 4999, the Central European Enterprise Development Act of 1990. My remarks respond to the questions posed in your invitation as to the need for the type of assistance and the proposed delivery mechanisms.

My name is Jack Rennie; I'm the Chairman and CEO of Pacer Systems, Inc., an aerospace/defense company specializing in training, simulation and sensor systems and services. Although I'm here testifying on my own behalf today, I have been very active for over fifteen years in the areas of international trade and small business management, and have held leadership positions in regional and national small business associations, national commissions and advisory boards. It is upon this background that I base my comments concerning H.R. 4999 today.

General Comments

With the emergence of freedom in Eastern Europe, we've seen rapidly growing interest in so-called "free market economies". Most of the time, the media have reported on "macro" issues such as economic planning, currency valuations and big industry relationships. What hasn't been discussed nearly enough, in my view,

Mr. Chairman, has been the difficult, painstaking effort needed to create vital and vigorous networks of small enterprises in these countries. I chose the word "create" purposefully because while there are, of course, small businesses in these countries, they represent (with, I'm sure a few exceptions) not at all the kinds of firms that will survive and grow in the "new business environment" which will emerge in coming years.

This "new business environment" will be one of truly great promise and opportunity, but also one of risk, financial stresses and failure.

Despite the trendy idea that Americans have somehow been overshadowed in the world of business management by other nations, I would submit that no country in the world has more experience with the effective start-up and growth of small businesses than the U.S. Also, no country has anywhere near the experience we have compiled in business failures and near-failures.

As I have travelled to other countries, the most noticeable, fundamental thing that separates the U.S. from other countries regarding entrepreneurial activity is our <u>tolerance of failure</u>. The

lack of this attitude is very common in western Europe, and I fear that if the U.S. does not reach the Eastern European cultures early in this process, this same risk aversive, intolerance-of-failure characteristic will become embedded there, thus stifling the formation of new businesses, the creation of jobs and, ultimately, their economic recovery.

So, I applaud you, Mr. Chairman, and the other Members of the Committee in initiating this unique program. We must reach Poland, Czechoslovakia and Hungary early...and we must reach them with a knowledgeable, pragmatic, balanced approach. In essence, we want to encourage and help them, but not mislead them regarding the mindset changes that must take place and the risks they will face in forging new economies.

The Need for Assistance

It has long been recognized that would-be entrepreneurs and those managing small enterprises need management assistance. That is why the Small Business Administration has the provision of such assistance as one of its four major functions. After decades of attempts at a variety of delivery vehicles, the SBA in the late 1970's and early 1980's created the network of Small Business

Development Centers (SBDC) around the country. While not perfect, I believe that this system of SBDC's is the best method we've found to provide the kinds of hands-on help that fledgling companies require. Acting as catalysts by drawing on expertise in the private sector and the nation's academic resources, SBDC's have, I'm sure, significantly helped, if not saved, many of the 675,000 or so businesses with which they've had contact.

Another interesting and apt feature of the SBDC model is the shared nature of its funding and management. As H.R. 4999 proposes, a joint effort of U.S. and in-country entities will not only be the most efficient in the early stages, but will help ensure that enduring infrastructures are established in each country.

So, Mr. Chairman, I feel that the combination of SBA, SBDC's and universities is a good one to meet what I feel will be a great need.

It will be most important that the assistance match the actual need, so I agree wholeheartedly with the initial phase of work which concentrates on the definition of the needs of small business in each country. We should not enter this phase with prejudged notions, as I predict we'll find the needs much different at the beginning than we

typically encounter here. I would expect that the first order needs in these communities will be very basic, both among the small business proprietors and in the university/government structure. By "basic" I mean elementary orientation and education regarding free enterprise, relating to markets, the role of finance, the role of government, etc. Then, more traditional management assistance topics can be addressed.

So, again, I feel that the tasks set out for the Small Business Enterprise Development Commission are on target. The results of this phase should be closely examined before the implementation phase starts in earnest so that the work of the American Enterprise Corps will match the needs.

Delivery Mechanisms

During what I'm referring to as the "first phase", the Commission will contract out for the needs assessment and infrastructure evaluation. It seems to me that a combination of talents will be needed for this job. Certainly, personnel who can evaluate institutions will be important. But I would urge, Mr. Chairman, that part of the team should include experienced small business experts, practitioners who have demonstrated their grasp of larger issues and

broad policy concerns. This will ensure that the assessment will have a practical character and strong credibility.

I particularly like the notion of the American Enterprise Corps. I applaud the Committee on its foresight to provide a vehicle by which outstanding small business owners and entrepreneurs can meet face-to-face and one-on-one with their (would-be) counterparts in the Eastern European countries. I have had discussions with a number of individuals within National Small Business United (NSBU) and the Smaller Business Association of New England (SBANE), who had not heard of this Bill, but were looking for opportunities to contribute in this way.

With the combination of some structure provided by the Commission and the Corps management, coupled with a group of volunteers from all industries and geographic sectors, the U.S. could very well mount a preeminent team to "kick-start" these countries' small business sectors.

It's my guess that one of the more important by-products of the Corps work will be the establishment of a number of company-to-company liaisons and joint ventures. Because I feel basic

orientation will be a basic need, I would expect that the individuals from Eastern Europe will learn far more, far more quickly by visiting their counterparts' businesses in the U.S. Therefore, I strongly agree with that section of the Bill that provides funding for those activities. In practice, I think the American hosts will reduce the drawdown on funds by having their guests stay in their homes, etc. So, I think these funds will go a long way.

But the most important feature, which has been provided in the Bill, is the utilization of small business practitioners. I would hasten to add that in their own way, those people will be "ambassadors" of America, so they should be chosen not only because they're familiar/experienced in business, but also because they have demonstrated good skills in handling situations requiring tact and cultural sensitivity.

Conclusion

In closing, Mr. Chairman, again let me state my support for the thrust of H.R. 4999 and the general way it is organized for implementation. I'm quite excited by the prospects of bringing the small business community of the U.S. to the "front lines" of Eastern Europe's economic renaissance.